Commercial Paper and Bills of Exchange of the World

Having credit enough with his master to provide for his own interest, he troubled not himself for that of other men.—Clarendon.

AS CREDIT is the most effective force in our banking system there is always a demand for credit information; and

The Mechanics and Metals National Bank

of the City of New York

has the facilities and equipment for supplying banks and other customers with such information.

Capital, Surplus and Profits, $ 15,000,000
Deposits (June 23, 1915), . 124,000,000

OFFICERS

GATES W. McGARRAH, President

NICHOLAS F. PALMER	Vice-President	SAMUEL S. CAMPBELL	Vice-President
JOHN McHUGH	Vice-President	JOSEPH S. HOUSE	Cashier
FRANK O. ROE	Vice-President	JOHN ROBINSON	Asst. Cashier
WALTER F. ALBERTSEN	Vice-President	ERNEST W. DAVENPORT	Asst. Cashier
HARRY H. POND	Vice-President	NORTH McLEAN	Manager Foreign Dept.

Strangers used to credit and trust the poor inhabitants, which had not ready money.—Henry VIII.

Manufactures were rude, credit almost unknown; society therefore recovered from the shock of war almost as soon as the actual conflict was over.—Macaulay.

Credit is nothing but the expectation of money within some limited time.—Locke.

He traded largely; his credit on the Exchange of London stood high, and he had accumulated an ample fortune.—Macaulay.

The Girard National Bank

Philadelphia

Stephen Girard
Born 1750 Died 1831

THE Federal Reserve system only affects that portion of balances formerly carried in the reserve centers that meets the reserve requirements of the Reserve Association. Member banks as well as non-member banks find their interests best conserved by maintaining active accounts with the independent banks in the reserve cities.

THE GIRARD NATIONAL BANK OF PHILADELPHIA has served its patrons efficiently for over eighty years and will continue to give prompt official attention to all business entrusted to it.

Capital and Surplus . . .	$ 6,500,000
Resources	50,000,000

OFFICERS

FRANCIS B. REEVES, Chairman of the Board

JOSEPH WAYNE, Jr., President
EVAN RANDOLPH, Vice-President
THEO. E. WIEDERSHEIM, Vice-President

CHARLES M. ASHTON, Cashier
A. W. PICKFORD, Asst. Cashier
ALFRED BARRATT, Asst. Cashier

If it were not for credit many people who possess capital but have no means of utilizing it themselves would find it useless and profitless.—John Stuart Mill.

Continental and Commercial National Bank

of Chicago

Capital, Surplus and Undivided Profits - - $33,000,000

OFFICERS

George M. Reynolds, - - President

Arthur Reynolds,	V.-Pres't	Nathaniel R. Losch,	Cashier	Harvey C. Vernon,	Ass't Cashier
Ralph Van Vechten,	V.-Pres't	John R. Washburn,	Ass't Cashier	Geo. B. Smith,	Ass't Cashier
Alex. Robertson,	V.-Pres't			Wilber Hattery,	Ass't Cashier
Herman Waldeck,	V.-Pres't			H. Erskine Smith,	Ass't Cashier
John C. Craft,	V.-Pres't			Wilson W. Lampert,	Ass't Cashier
James R. Chapman,	V.-Pres't			Dan Norman,	Ass't Cashier
Wm. T. Bruckner,	V.-Pres't			Geo. A. Jackson,	Ass't Cashier

Continental and Commercial Trust and Savings Bank

Capital, Surplus and Undivided Profits - - - $5,000,000

Trust, Savings and Bond Departments

OFFICERS

George M. Reynolds, - - President

John Jay Abbott,	Vice-President	Frank H. Jones,	Secretary	Henry C. Olcott,	Mgr. Bond Dept.
Arthur Reynolds,	Vice-President	Wm. P. Kopf,	Ass't Secretary	Robert J. Hircock,	Ass't Cashier
Charles C. Willson,	Cashier			Albert S. Martin,	Ass't Cashier

---

The Hibernian Banking Association

Capital, Surplus and Undivided Profits - - - $3,000,000

OFFICERS

George M. Reynolds - - President

David R. Lewis,	Vice-President	Frederic S. Hebard,	Cashier	John P. V. Murphy,	Mgr. Sav. Dept.
Henry B. Clarke,	Vice-President	Everett R. McFadden,	Secretary	George Allan,	Ass't Cashier
Louis B. Clarke,	Vice-President			Thos. E. McGrath,	Ass't Cashier

---

Combined Resources of these Affiliated Banks Over $250,000,000

However gradual may be the growth of confidence, that of credit requires still more time to arrive at maturity.—Disraeli.

WHILE the Federal Reserve Act has divided the country into regional districts, the course of trade remains the same. Banking follows its natural channels, and your New York business needs the same careful attention as heretofore. One hundred and twelve years' experience in serving banks as their New York correspondent tends to make this Bank's facilities and service of great value to out-of-town banks under the new regime.

The Merchants National Bank

of the

City of New York

DIRECTORS

JOHN A. STEWART, Chairman Board of Trustees
United States Trust Co.

ROBERT M. GALLAWAY, President

CHARLES D. DICKEY
Brown Brothers & Co., Bankers

EDWARD HOLBROOK
President Gorham Manufacturing Co.

JOSEPH W. HARRIMAN, Vice-President
Harriman & Co., Bankers

WILLIAM A. TAYLOR, Taylor Clapp & Co.
Dry Goods Commission

GEORGE ZABRISKIE
Zabriskie Murray Sage & Kerr, Lawyers

CHARLES A. BOODY
President The Peoples Trust Co. of Brooklyn

JAMES C. COLGATE
James B. Colgate & Co., Bankers

GUSTAV SCHWAB
Oelrichs & Co., Agt's North German Lloyd S.S.Co.

JOSEPH BYRNE, Vice-President and Cashier

T. FRANK MANVILLE
President H. W. Johns-Manville Co.

FOUNDED
1803

Resources over $30,000,000

Silver and gold are not the only coin; virtue passes current all over the world.—Euripides.

If you were ignorant of this, that credit is the greatest capital of all towards the acquisition of wealth, you would be utterly ignorant—Demosthenes.

Statement of the Condition of the

Wisconsin National Bank

of Milwaukee

UNITED STATES DEPOSITORY

At the Close of Business May 1st, 1915

Compared with the Corresponding Period of 1914

RESOURCES

	May 1, 1914	May 1, 1915
Loans and Discounts	$13,934,687.24	$15,998,316.54
Bonds—Govt., Municipal & R. R.	3,078,997.90	3,280,306.35
Real Estate	541,000.00	641,000.00
Cash and Due from Banks . . .	8,334,465.70	8,950,394.77
Total	$25,889,150.84	$28,870,017.66

LIABILITIES

	May 1, 1914	May 1, 1915
Capital Stock	$2,000,000.00	$2,000,000.00
Surplus and Undivided Profits . .	1,435,590.36	1,476,505.03
Res. for Tax. & Unearned Interest	53,011.60	52,778.63
Circulation	1,640,895.00	1,665,995.00
Deposits	20,759,653.88	23,674,739.00
Total	$25,889,150.84	$28,870,017.66

OFFICERS

L. J. PETIT, President

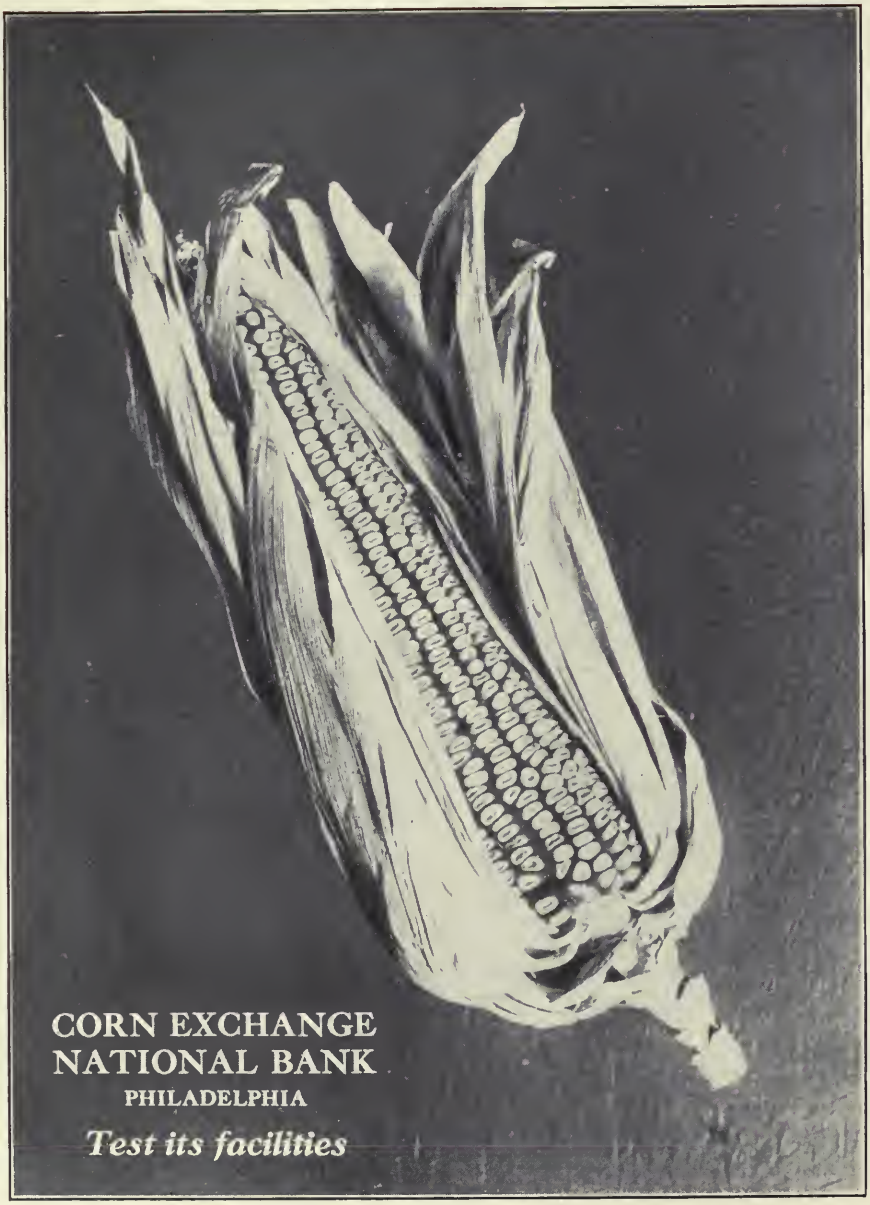
HERMAN F. WOLF, Vice-President
L. G. BOURNIQUE, Vice-President
WALTER KASTEN, Vice-President
J. M. HAYS, Cashier
FRANZ SIEMENS, Asst. Cashier
WILLIAM K. ADAMS, Asst. Cashier
F. K. McPHERSON, Asst. Cashier
A. V. D. CLARKSON, Asst. Cashier

DIRECTORS

ISAAC D. ADLER
DR. C. E. ALBRIGHT
L. G. BOURNIQUE
PATRICK CUDAHY
HERMAN W. FALK
OLIVER C. FULLER
R. W. HOUGHTON
WALTER KASTEN
GUSTAVE PABST
L. J. PETIT
CHAS. SCHRIBER
CLEMENT C. SMITH
HENRY M. THOMPSON
GEO. D. VAN DYKE
HERMAN F. WOLF

Put not your trust in money but put your money in trust.—Holmes.

Let us all be happy and live within our means, even if we have to borrow the money to do it with.—Artemus Ward.



Quick to serve under any banking system.
—Corn Exchange

We are content to take this on your credit.—Hooker.

Commercial Paper *and* Bills of Exchange *of the World*

A review of the general methods observed in discounting commercial paper and bills of exchange throughout the world, with a special reference to *bank acceptances*, also a brief history of the origin and development of commercial paper.

Banking Law Journal Year Book
Tenth Year

Published by the Banking Law Journal
27 Thames Street, New York

The Chase National Bank

OF THE CITY OF NEW YORK

57 BROADWAY

UNITED STATES DEPOSITORY

Capital	$ 5,000,000
Surplus and Profits (Earned)	9,832,000
Deposits (June 23, 1915) .	171,930,000

OFFICERS

A. BARTON HEPBURN, Chairman

ALBERT H. WIGGIN, President

SAMUEL H. MILLER,	Vice-President	WILLIAM E. PURDY,	Asst. Cashier
EDWARD R. TINKER, Jr.,	Vice-President	CHARLES D. SMITH,	Asst. Cashier
ALFRED C. ANDREWS,	Cashier	WILLIAM P. HOLLY,	Asst. Cashier
CHARLES C. SLADE,	Asst. Cashier	GEORGE H. SAYLOR,	Asst. Cashier
EDWIN A. LEE,	Asst. Cashier	M. HADDEN HOWELL,	Asst. Cashier

DIRECTORS

HENRY W. CANNON	GEORGE F. BAKER, Jr.
JAMES J. HILL	FRANCIS L. HINE
A. BARTON HEPBURN	JOHN J. MITCHELL
ALBERT H. WIGGIN	GUY E. TRIPP

WE RECEIVE ACCOUNTS OF

Banks, Bankers, Corporations, Firms or Individuals on favorable terms, and shall be pleased to meet or correspond with those who contemplate making changes or opening new accounts.

FOREIGN EXCHANGE DEPARTMENT

If it were not for credit many people who possess capital but have no means of utilizing it themselves would find it useless and profitless.—John Stuart Mill.

Strangers used to credit and trust the poor inhabitants, which had not ready money.—Henry VIII.

Mississippi Valley Trust Co.

St. Louis

Twenty-Fifth Anniversary, October 3, 1915

THIS Trust Company's development has been that of a single institution without absorption of or consolidation with any other.

It celebrates, not age but growth, not time but the use of time, not years but long and earnest service.

DIRECTORS

HENRY SEMPLE AMES	S. E. HOFFMAN	H. CLAY PIERCE
WILLIAM BAGNELL	BRECKINRIDGE JONES	HENRY S. PRIEST
JOHN I. BEGGS	WILLIAM G. LACKEY	CHARLES E. SCHAFF
EUGENE H. BENOIST	W. J. McBRIDE	J. SHEPPARD SMITH
JAMES E. BROCK	GEORGE A. MAHAN	R. H. STOCKTON
JOHN D. DAVIS	ROBT. J. O'REILLY, M. D.	FREDERICK VIERLING
DAVID R. FRANCIS	WM. D. ORTHWEIN	JULIUS S. WALSH
HORD HARDIN	HENRY W. PETERS	ROLLA WELLS
		LOUIS WERNER

Capital, Surplus and Profits over $8,000,000.00

He traded largely; his credit on the Exchange of London stood high, and he had accumulated an ample fortune.—Macaulay.

Having credit enough with his master to provide for his own interest, he troubled not himself for that of other men.— Clarendon.

Manufactures were rude, credit almost unknown; society therefore recovered from the shock of war almost as soon as the actual conflict was over.—Macaulay.

Silver and gold are not the only coin; virtue passes current all over the world.—Euripides.

Credit is nothing but the expectation of money within some limited time.—Locke.

Let us all be happy and live within our means, even if we have to borrow the money to do it with.—Artemus Ward.

The Mechanics-American National Bank
of St. Louis

An individual banking connection in St. Louis is as essential under the new banking system as heretofore. We offer correspondents the benefit of our equipment and superior facilities for handling their business in this section. May we serve you?

Capital	**$ 2,000,000**
Surplus	**2,500,000**
Resources	**35,500,000**

WALKER HILL, President

FRANK O. HICKS, Vice-President
JACKSON JOHNSON, Vice-President
EPHRON CATLIN, Vice-President
JOSEPH S. CALFEE, Cashier

CHARLES L. ALLEN, Assistant Cashier
JAMES R. LEAVELL, Assistant Cashier
PHILIP H. MILLER, Assistant Cashier
WILLIAM H. HETTEL, Assistant Cashier

We are content to take this on your credit.—Hooker.

Credit has done more, a thousand times, to enrich the nations than all the mines in the world. – Webster.

Tomorrow, Sir, I wrestle for my credit, and he that escapes me shall acquit him well.—Shakespeare, As You Like It.

Credit has done more, a thousand times, to enrich the nations than all the mines in the world.—Webster.

The Corn Exchange National Bank *of* Chicago

Capital	$3,000,000.00
Surplus	5,000,000.00
Undivided Profits . .	1,900,000.00

Officers

ERNEST A. HAMILL	President	FRANK W. SMITH	Secretary
CHARLES L. HUTCHINSON	Vice-President	J. EDWARD MAASS	Cashier
CHAUNCEY J. BLAIR . .	Vice-President	JAMES G. WAKEFIELD .	Assistant Cashier
D. A. MOULTON	Vice-President	LOUIS E. GARY . . .	Assistant Cashier
B. C. SAMMONS	Vice-President	EDWARD F. SCHOENECK	Assistant Cashier

Directors

CHARLES H. WACKER	MARTIN A. RYERSON
CHAUNCEY J. BLAIR	CHARLES H. HULBURD
EDWARD B. BUTLER	CLYDE M. CARR
BENJAMIN CARPENTER	EDWIN G. FORMAN
WATSON F. BLAIR	EDWARD A. SHEDD
CHARLES L. HUTCHINSON	ERNEST A. HAMILL

Foreign Exchange   Letters of Credit   Cable Transfers

Tomorrow, Sir, I wrestle for my credit, and he that escapes me shall acquit him well.—Shakespeare, As You Like It.

Credit is nothing but the expectation of money within some limited time.—Locke.

Central Trust Company of Illinois

125 West Monroe Street
Chicago

Capital, Surplus and Profits, $ 6,000,000
Deposits 40,000,000

ACCOUNTS OF BANKS AND BANKERS RECEIVED UPON FAVORABLE TERMS.
PARTICULAR ATTENTION GIVEN TO COLLECTIONS.

OFFICERS

Charles G. Dawes,	President
Joseph E. Otis,	Vice-President
Edwin F. Mack,	" "
William T. Abbott,	" "
Walter H. Wilson,	" "
William R. Dawes,	Vice-President and Cashier
J. E. Lindquist,	Vice-President
Landon C. Rose,	" "
William C. Cook,	" "
T. C. Neal,	" "
Fred B. Woodland,	" "
L. D. Skinner,	Assistant Cashier
Wm. W. Gates,	" "
Jno. W. Thomas,	" "
Harry R. Moore,	" "
Addison Corneau,	" "
Howard S. Camp,	" "
J. H. Musson,	" "
Albert G. Mang,	Secretary
William G. Edens,	Assistant Secretary
Aksel K. Bodholdt,	" "
John L. Lehnhard,	Assistant Trust Officer
Lloyd R. Steere,	Probate Officer
Robt. H. Berry,	Auditor

DIRECTORS

A. J. Earling
Arthur Dixon
Charles T. Boynton
Alexander H. Revell
S. M. Felton
T. W. Robinson
Chandler B. Beach
Max Pam
Z. G. Simmons
H. A. Langhorst
A. Uhrlaub
Howard G. Hetzler
Walter H. Wilson
Joseph E. Otis
George Woodland
Burton F. Peek
James W. Stevens
W. O. Johnson
R. Floyd Clinch
William C. Boyden
C. B. Scoville
A. R. Barnes
Landon C. Rose
A. M. Johnson
Charles G. Dawes

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Let us all be happy and live within our means, even if we have to borrow the money to do it with.—Artemus Ward.

He traded largely; his credit on the Exchange of London stood high, and he had accumulated an ample fortune.—Macaulay.

Merchants National Bank, Burlington, Iowa

Capital, - -	$100,000.00
Surplus and Profits,	130,000.00

Officers

J. L. Edwards	President
W. E. Blake	Vice-President
James Moir	Vice-President
Alex. Moir	Vice-President
H. J. Hungerford	Cashier
F. L. Houke	Ass't Cashier
C. L. Fulton	Ass't Cashier

Directors

W. E. Blake, Chairman

H. A. Brown
W. W. Copeland
James Moir
Alex. Moir
W. C. Tubbs
J. L. Waite
J. L. Edwards

Tomorrow, Sir, I wrestle for my credit, and he that escapes me shall acquit him well.— Shakespeare, As You Like It.

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Manufactures were rude, credit almost unknown; society therefore recovered from the shock of war almost as soon as the actual conflict was over.—Macaulay.

Silver and gold are not the only coin; virtue passes current all over the world.—Euripides.

The Citizens Central National Bank

In the Centre of the Down Town Wholesale District

320 BROADWAY, NEW YORK
Between Worth and Pearl Streets

Capital Stock - - -	$ 2,550,000.00
Surplus and Profits -	2,537,864.00
Deposits, June 23, 1915	26,891,152.00

DIRECTORS

AMBROSE R. ADAMS
F. M. BACON, Jr., Vice-President
CHARLES L. BERNHEIMER
GARRARD COMLY, Vice-Pres.
RALPH L. CUTTER
OTTO L. DOMMERICH
FREDERICK T. FLEITMANN
WILLIAM S. GRAY
ROBERT B. HIRSCH
DARWIN P. KINGSLEY
WALTON P. KINGSLEY
AUGUSTUS F. LIBBY
WM. FELLOWES MORGAN
CHAS. ALLEN MUNN
FRANK PRESBREY
EDWIN S. SCHENCK, President

UNION NATIONAL BANK

PHILADELPHIA

W. H. Carpenter, President
T. H. Conderman, Vice-President
Louis N. Spielberger, Cashier
John W. Mink, Asst. Cashier

Capital
$500,000

Surplus
$400,000

Deposits
$5,000,000

ACCOUNTS OF BANKS, BANKERS, CORPORATIONS AND INDIVIDUALS SOLICITED

However gradual may be the growth of confidence, that of credit requires still more time to arrive at maturity.—Disraeli.

Credit has done more, a thousand times, to enrich the nations than all the mines in the world.—Webster.

If it were not for credit many people who possess capital but have no means of utilizing it themselves would find it useless and profitless.—John Stuart Mill.

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CONTENTS

The only road, the sure road—to unquestioned credit and a sound financial condition is the exact and punctual fulfilment of every pecuniary obligation, public and private, according to its letter and spirit—Rutherford B. Hayes.

FOREWORD

THE change in the methods of discounting paper brought about by the Federal Reserve system of banking created a demand for an up-to-date work on commercial paper.

To meet this demand the Banking Law Journal publishes herein a review of the methods of discounting paper under the old system of banking, as compared with the new methods under the Federal Reserve Act.

In describing the difference between the methods so long observed in this country, and the methods in foreign countries, we endeaver to point out the advantages and simplicity of single name paper, as against the two name or acceptance form of credit; and as the Bank Acceptance is not as yet generally understood in this country, it is given special attention, it being predicted by bankers, who are familiar with its operations in the European discount market, that it will soon become one of our chief credit instruments.

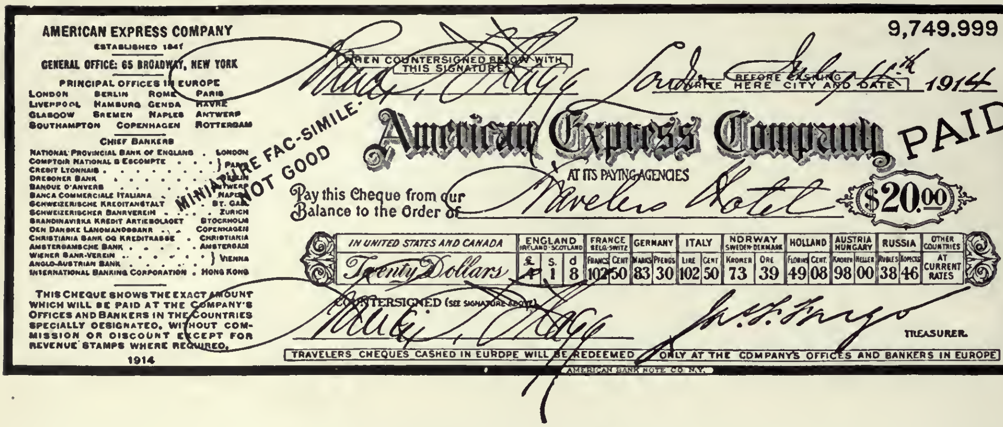
These gentlemen point out that, there being a tendency to create a private discount market here, such as obtains in Europe, commercial paper that is eligible for rediscount at the Federal Reserve Banks becomes a liquid asset, which is one of the conspicuous advantages of this form of credit.

Other subjects carefully treated are The Practical Operation of Foreign Exchange, The Credit System, The Banks and the Credit System, Commercial Paper in the Trades, Bills of Exchange and Commercial Paper in England, Canada, France, Germany and Japan. The authenticity and practicability of the work is vouched for by the fact that the data was supplied by thorough, practical foreign exchange men, credit men in banks and industrial houses and commercial paper dealers.

The Bank Acceptance, as defined by the Federal Reserve Board and the Board's latest ruling on this form of credit under date of July 15, together with the Board's definition of commercial paper eligible for rediscount, are given in full.

Reduced facsimile American Express Company Travelers' Cheque

Published through the courtesy of the American Express Company



The Travelers' Cheque system was originated in 1891 by the American Express Company. It offers a simple and convenient way of carrying money while traveling either at home or abroad.

CAN YOU USE A FORWARDING AND FINANCIAL SERVICE WHICH KNOWS NO GEOGRAPHICAL LIMITATIONS?

¶ The American Express Company offers to bankers, merchants and manufacturers, a service as complete and comprehensive as the realm of business itself.

¶ The whole duty of its 30,000 employes consists in looking after other people's business. They are neither manufacturers nor merchandisers, but in every part of the commercial world they are facilitating the business of those who are.

¶ Their service to you begins where your organization leaves off. They attend to all phases of import and export trade, both express, freight and financial, from the issuance of the through bill of lading to the collection of the draft or invoice.

¶ They quote inland traffic and foreign ocean rates, issue foreign and domestic drafts and money orders, travelers' cheques, and letters of credit. They transfer funds by telegraph and cable; buy and sell domestic and foreign exchange; collect bills and accounts; serve legal papers; pay taxes; execute orders for purchase and make sales on consignment.

¶ Their service embodies that technical knowledge so essential to success which only experienced men can give. Through the American Express Company, with its exclusive offices in the principal foreign cities and correspondents at all important points, it is a simple matter to establish direct contact with the commercial activities of every land.

Commercial Paper and Bills of Exchange

Chapter I

COMMERCIAL paper, as the term is used in banking and commercial transactions, is a popular rather than a technical expression, employed to designate those simple forms of contract,—instruments of indebtedness, which are treated everywhere as equivalents or representatives of money, and which have long been recognized in the world's commerce and by the courts of various countries as essential to trade and finance.

These instruments in their inception, transfer and payment, are governed by that code of laws which has been evolved from the customs of merchants, commonly known as the "law merchant." Exports and imports, remittances to and from every quarter of the globe, payment of sums large and small between parties near to and remote from each other, are made through the medium of bills of exchange, while promissory notes and checks have universally become part of the business life of nations.

Every business, corporate and private, and every profession in some form or other, makes use of these indispensable instruments of transfer and are bound by the laws relating thereto.

Simple as these instruments may seem, the rights and obligations of the parties thereto are surrounded by a complicated mass of statute law and judicial decisions which seek to jealously guard the rights and enforce the obligations of the parties concerned.

The law of debt is as old as history, and the sanctity of obligations is the foundation of all trade and commerce. The breaking of the pledged word or the written promise has throughout history been considered a disgrace to the guilty one and a menace to business.

By the common law of England, a chose in action (meaning a claim recoverable at law) could not be assigned, on the principle that if such debts could be thus transferred, "pretended titles might be granted to great men whereby right might be trodden down and the weak oppressed, which the common law forbiddeth." The rule was first relaxed as to bills of exchange, but was gradually extended to notes and other securities, until the rule itself disappeared.

While all choses in action are now transferable, the negotiable instrument is the only species which carries by transfer a clear title and a full measure; and like an instrument under seal imports a consideration. The negotiable instrument has the following distinguishing characteristics:

(a) *As to title.* If a piece of personal property (chattel personal) or a *non*-negotiable instrument be stolen, no purchaser however innocent can acquire title against the true owner. If a *negotiable* instrument be stolen, and transferred by the thief to a third person in due course, for value, before maturity, the owner may hold against the world.

(b) *As to amount.* If a non-negotiable instrument be assigned, the assignee steps into the shoes of the assignor, and if the same has been paid, or is subject to counterclaim, or set-off, against the maker, such counterclaim is good against the assignee. But commercial paper in the hands of a bona-fide holder for value carries the right to receive the face amount, and is subject to none of the defenses good between the original parties. Commercial paper is "a currier without luggage," and as such forms an important part of the circulating credit medium of the world.

(c) *As to consideration.* Under the common law, an instrument under seal imported consideration, by virtue of the solemn ceremony attending its execution. No other non-negotiable instrument does; but by the customs of merchants, heretofore mentioned, a bill of exchange *prima facie* imports a consideration, and by the Negotiable Instruments Law, now in force in forty-two states, consideration is presumed. As between the immediate parties lack of consideration may be shown and the presumptive consideration rebutted; but in the hands of an innocent holder for value, before maturity, no want or failure of consideration can be shown. Its defects perish with its transfer.

THE BILL OF EXCHANGE

Perhaps the best definition of a bill of exchange yet conceived is that in the English Bills of Exchange Act, of 1882, which says: "A bill of exchange is an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand, or at a fixed or determinable future time, a sum certain in money to, or to the order of a specified person, or to bearer."

By the same act, a promissory note is "an unconditional promise in writing made by one person to another, signed by the maker, engaging to pay on demand, or at a fixed or determinable future time, a certain sum in money to the order of a specified person, or to bearer." The one is an order; the other is a promise. Both have distinctive functions to perform in the financial affairs of the world.

THE PURPOSE OF THE BILL OF EXCHANGE

The fundamental purpose of the bill of exchange is to settle debts without the transfer of money. To pay a debt does not necessarily mean to pass over the money, but to cancel the obligation by any of the processes known to commerce and the law. To satisfy one debt by canceling another is no less effective as a means of payment than the shipping of gold itself. And the mutual offsetting of debts between men as well as nations is the cheapest means of payment known. Where debts between immediate parties are canceled by book accounts—goods for goods, no credit instruments arise; but since the course of trade does not make the immediate offsetting possible, bills of exchange and promissory notes come into being. If A owes B, and B owes C, A may pay C direct and cancel B's debt to C, with one instead of two transfers of money or its equivalent, C giving B credit for the sum received from A. Or, to do it in a banking way, B may "draw on" A to the order of C. The effect of the draft would be to say: "A, pay to C, the debt you owe me, B, and I will credit you."

To illustrate this principle as it applies to international trade and foreign exchange, suppose that The Boston Beef Co., an exporter of meat, sells The Liverpool Beef Co., $10,000 worth of beef. The London Steel Co., knowing nothing of the transaction, sells the New York Razor Co. $10,000 worth of Sheffield steel. Payment for these goods can be made in one of two ways: either by shipping two sums of gold across the Atlantic, with the attendant risk and costs, or by the use of a credit instrument in the form of a bill of exchange. The Boston Beef Co. therefore draws up a document as follows: (illustrated on the following page).

Boston, August 1, 1914.

At sight of this first bill of exchange (second unpaid) pay to the order of New York Razor Co. (importer of steel) $10,000, value received and charge to account of Boston Beef Co. (~~importer~~ exporter of meat), to Liverpool Beef Co. (buyer of meat).

Knowing that the Razor Company desires to make payment of its debt in London, the Boston Beef Co. sells this bill of exchange to the Razor Company and receives its money for the shipment of beef. The Razor Company now has a claim against the Liverpool Beef Company and good title to the funds in its hands which are due to the Boston Beef Co. Therefore, the Razor Company sends the draft properly endorsed, to the London Steel Company, its creditor, for collection and credit. The London Steel Company thereupon presents the draft through the proper channel to the Liverpool Beef Co. which pays the draft, or "accepts" it, and thus the London Steel Company obtains its money.

The double shipment of money is thus avoided and cost and risks reduced to the minimum. Of course, such direct dealing does not generally obtain, but through the medium of banks and exchange brokers essentially the same process takes place in all exchange transactions, debts in one country offsetting credits in another, so that in the sum total money is used only to adjust the differences at final settlement. The bill of exchange becomes an acceptance if the drawee writes across the face of it: "Accepted" (date made and date payable).

The same principles apply to inland bills (bills between different places in the same country) the only difference being in the money units involved.

Whether the order is for the payment of funds out of a balance in the hands of a banker (banker's check), or in order to secure payment for goods as soon as shipped, by drawing on the buyer and selling to a bank in the exchange market, (trade bill) the result is the same—the payment of a debt by means of a paper instrument of credit.

PROMISSORY NOTES

Promissory notes, however, perform a different function, and are not drawn *on* persons, but *by* persons. They do not primarily intend to transfer funds, but to settle debts and borrow money. They need not necessarily represent a business transaction, but many, if not most of these instruments arise by virtue of goods bought and sold.

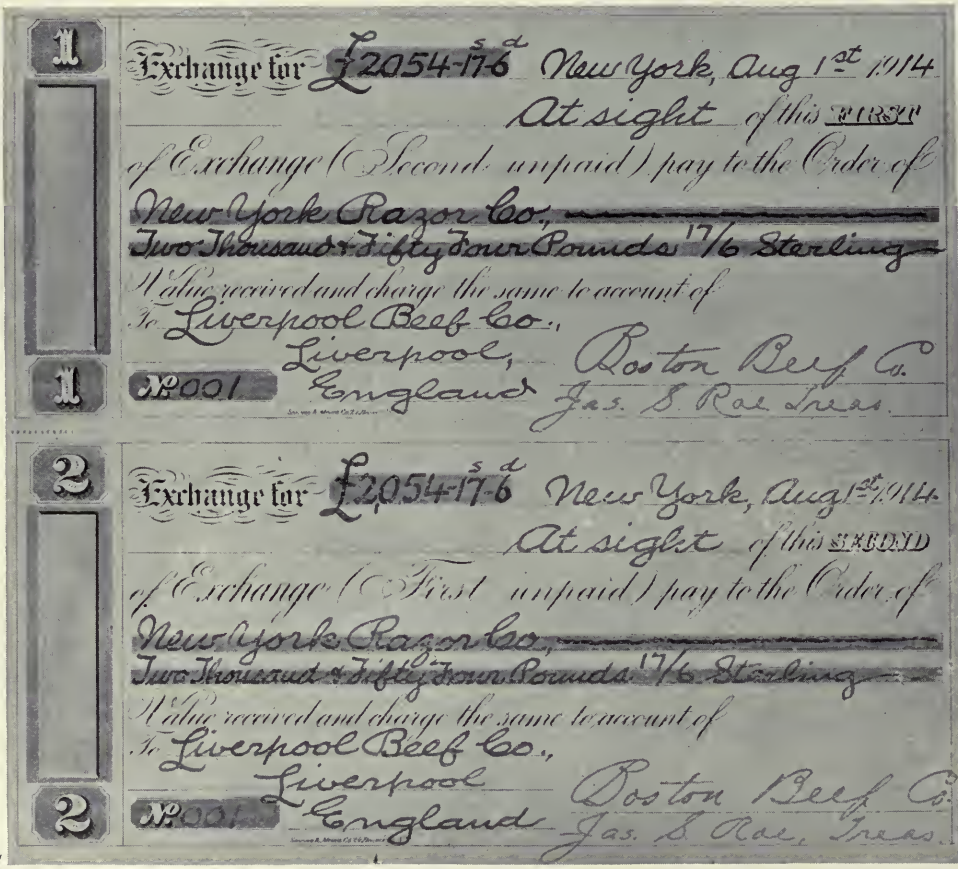
—1—
The Boston Beef Co. sells to the Liverpool Beef Co. $10,000 worth of meat
BOSTON
Creditor of Liverpool
—5—
Boston Beef Co. draws on Liverpool Beef Co. and sells draft to New York Razor Co.

Liverpool Owes Boston

—2—
Liverpool Beef Co. buys $10,000 worth of meat from Boston Beef Co.
LIVERPOOL
Debtor to Boston
—8—
Liverpool Beef Co. pays draft to London Steel Co. and transaction is closed

New York Pays Boston

The Draft



1

Exchange for £2054-17-6 New York, Aug 1st 1914
At sight of this FIRST of Exchange (Second unpaid) pay to the Order of
New York Razor Co.,
Two Thousand & Fifty Four Pounds 17/6 Sterling
Value received and charge the same to account of
To Liverpool Beef Co.,
Liverpool, England
No. 001
Boston Beef Co.
Jas. S. Rae Treas.

2

Exchange for £2054-17-6 New York, Aug 1st 1914
At sight of this SECOND of Exchange (First unpaid) pay to the Order of
New York Razor Co.,
Two Thousand & Fifty Four Pounds 17/6 Sterling
Value received and charge the same to account of
To Liverpool Beef Co.,
Liverpool, England
No. 001
Boston Beef Co.
Jas. S. Rae, Treas.

The Draft

Liverpool Pays London

The Draft

—3—
New York Razor Co. buys $10,000 worth of Steel from London Steel Co.
NEW YORK
Debtor to London
—6—
New York Razor Co. buys draft of Boston Beef Co. and endorses "Pay to London Steel Co. New York Razor Co." and sends draft to London Steel Co. for Credit

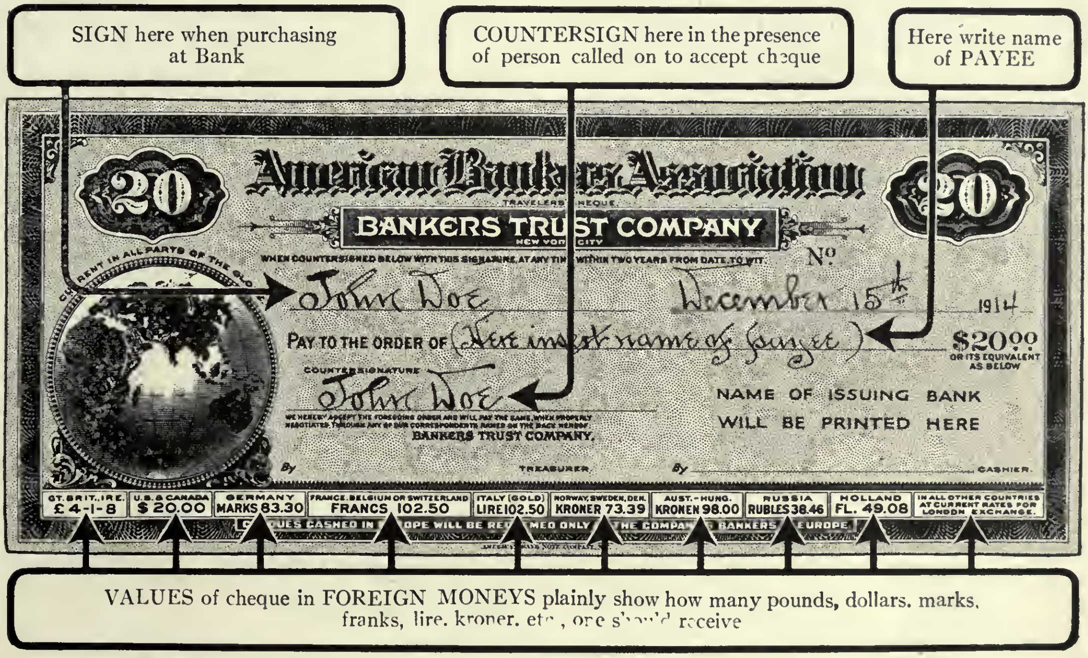
New York Owes London

The Draft

—4—
London Steel Co. sells New York Razor Co. $10,000 worth of Steel
LONDON
Creditor of New York
—7—
London Steel Co. presents draft to Liverpool Beef Co., receives payment and credits New York

To get a clearer interpretation of the transactions shown in the above diagram, read the paragraphs consecutively as numbered.

Another form of credit that is most useful to the general public is the Traveler's Cheque. America has now become the great tourist nation, which the American Banker's Association has recognized through the establishment of its Travelers' Cheque system. This form of credit is an authority in effect to whomever it may concern, for instance, banker, hotel clerk, merchant or railroad agent, to credit the party presenting it, when he identifies himself by means of his countersignature, with cash goods or service. It has placed in circulation millions of dollars in paper that is safe for tourists to carry and safe for those called upon to accept for full value. The system marks a vital and important forward step in banking service.



Courtesy of the Bankers Trust Company of New York

Facsimile of American Bankers' Association Travelers' cheque with instructions how to fill in

The Use of Bank Checks in the United States

The use of bank checks is as highly developed in the United States as could be hoped for; even England where the bank check has supplanted other forms of circulating media, could hardly make a better showing. There, money is used only in the small exchanges, over-the-counter buying and in the payment of labor, which is a small factor in the gross turnover. The reason for the widespread increased use of checks in this country (in some instances approximating one hundred per cent. of the business done,) is undoubtedly due to the growing number of banking institutions, every town and hamlet now having its own bank. And as the people become more and more accustomed to the use of the bank check—the perfect circulating medium, checks will supplant other forms of currency, so that paper money will only be used to a limited degree and gold only in international transactions. With less than five per cent. of the bank deposits in the form of currency, and only 1 per cent. in coin, it would seem that the check had at last come to be the currency of the country.

The statement has been made by men of authority, that 90 per cent. of the business of the country is done without the use of money. The statistics forming the basis of these calculations have been gathered from time to time by the Comptroller of the Currency, the inquiry taking the form of ascertaining the relative proportion of checks and other credit instruments in the receipts of the banks of the country during a single day; the day being selected as fairly representative of normal conditions. These statistics show that about 92 per cent. of the deposits are in checks.

The Credit System

Chapter II

THE credit system forms the perfect and convenient method for paying large sums, especially in distant places. It displaces the use of a corresponding amount of gold and silver, thus releasing the metals for other purposes; hence, credit is a far better medium of exchange than an equal amount of coined money; for while money is an indispensable denominator of prices, and the medium of the smaller exchanges, credit is the instrument of the larger exchanges and larger production. Indeed, in this broader field of usefulness, credit performs what coin can not, except through the credit system and its various modes of adjustment how would it be possible to pay over $300,000,000 daily in ten minutes at the New York Clearing House? It is done there by exchanging and offsetting items, having differences to be settled later. Moreover as an instrument it is economically costless and not like money with a commodity value and therefore expensive. Through a coöperative credit system such as obtains in Germany, Austria and Italy, laborers and artisans are enabled to unite their limited credit, and make it effective and cheap by reason of its goodness; for collective credit is as potent a force as collected capital. And wherever the credit system is well developed, credit is not only stable and cheap, but an educational force, and as valuable as a national asset, as is climate or geographical location. The credit system is most effectively developed in those nations where the highest order of intelligence prevail, and where credit is used in its full power it has carried through achievements impossible under any system of barter or money exchanges.

In the credit system we have, first, the creation of the obligation; second, the transfer of the instrument arising out of the transaction; third, the circulation of the instrument; fourth, its payment and cancellation.

Personal Credit

Personal credit underlies the whole credit system. The intrinsic goodness of the individual credit has much to do with the soundness of the entire structure. This credit was formerly based largely upon personal knowledge of the borrower; but casual observation has given way to careful inquiry and systematic records, so that with the growth of the system, more definite and accurate information is now obtained as to the borrower's condition, habits and ability and, only as credit is strong at the base can the structure reared upon it be sound.

If the credit given by the storekeeper is unwisely extended, extravagance and loose methods encouraged, collections slow and bad debts accumulated, it endangers the whole system; for when the retailer cannot pay the wholesaler the latter must fall back upon the bank, and the load of unwise credit assumed by the individual spreads to the whole system, undermining its usefulness and power.

Credit too freely offered is an economic crime. The credit unions of Germany have the right idea, and their credit system is the essence of strength, because loans are never made but for productive purposes. The credit must not only be desired but desirable, self-liquidating, and for a purpose that will create and not destroy. The ultimate strength of any system of credit depends not only upon the willingness of the borrower to pay, but his ability. If the man be able and also willing the very essential elements are in evidence. If he be able but not willing the risk is bad; and if willing but not able, loss is certain.

Credit is Capital

Credit, answering the same, and often a better purpose than money, the power to command credit is as effective as the power to borrow the actual money. If Smith will trust Jones, either on book account or on note, or by accommodation paper or endorsement it is as beneficial as the loan of the actual cash. A loan of credit does not, however, always increase the *supply* of capital; for if Smith loans Jones $10,000 by means of his note, the proceeds increases the capital of Jones, but the lender's credit is reduced accordingly.

And so the creation of credit does not always increase the volume of capital, but its commercial value may be increased by mobilizing the capital and making it effective. Jones may have use for the capital created by capitalizing Smith's credit, and employ it so effectively that he can pay Smith for its use and still make a profit for himself. Moreover the idle capital in the hands of Smith becomes effective capital in the hands of Jones.

As money becomes an effective instrument of exchange, not only by reason of the amount available, but by the frequency of the turnover, so credit becomes an effective instrument by the frequency of its circulation. Moreover it effects prices by reason of its effective turnover, because of its lessened cost. It can readily be seen that if one hundred dollars changes hands ten times a day, it does the work of a thousand dollars, and leaves the nine hundred for other purposes. And so a credit instrument may settle several debts by being passed from one to the other the ultimate redemption in gold being the only safeguard necessary to insure stability. Only when fear of adequate redemption facilities creeps in to unsettle the minds of the public does the question of final redemption become a disturbing factor.

Forms of Credit

The Credit system resolves itself into five forms: book credit; bank note credit, commercial paper credit, check credit, and acceptance credit. The form which credit takes should be adapted to the needs of the people and the usages of business. It can readily be seen that any form of credit which locks up cash is more expensive than that which involves no cash.

The book credit is merely a record of the transactions—accounts stated. In former days this answered fairly well, when goods were sold on long time, and quick turnover and cash discounts were not in vogue. The "accounts receivable" on the credit statement is merely an aggregation of the book accounts. This form of credit is negotiable, some firms making it a business to loan on such security, and some banks take such accounts as security for cash advances.

The check form of credit is the most effective as a circulating medium, this form being most effectively developed in England and the United States, where the check is more generally used than in any other part of the world. The check, like the bill of exchange quickly comes home for payment; but the check, being in non-uniform denominations, and with credit unknown outside its immediate field, is not as perfect a form of credit as the bank note, which if issued under proper safeguards, answers the same purpose as money.

The danger lies in the ratio of coin to bank notes. If the volume of notes is large and the gold backing small, a sudden demand for payment (redemption) results in a suspension of specie payment unless gold can be attracted, or some other form of credit instrument created that will meet the demands of the note holders. A central credit agency, is therefore, needful, which can turn the credit instruments of commerce from one form into another, which, until the creation of the Federal Reserve Association, we have sadly lacked.

The check and the bill of exchange properly accepted, form the perfect medium of large payments, as the bank note forms the perfect medium of the small. Quick redemption, expansion and contraction with the changing needs of business make the former ideal credit instruments, and when quickly turnable into the bank note, a bank obligation that will pass current throughout the country, answer all the purposes of metallic money, and as a medium of exchange are both economical and efficient.

Credit may be used to obtain funds; it may be used as funds. In the mercantile world, the credit of the merchant in whatever form it may be utilized, is used to obtain funds; but when credit takes the form of bank notes, it is funds. And credit when used by the bank in making acceptances, again becomes funds, by creating a circulating medium.

Bills of exchange, checks, and notes circulate as money by passing from hand to hand in the settlement of debts. Thus, a farmer owing his storekeeper for a bill of goods, tenders his sixty day note. The merchant passes it on to the jobber in the county seat, who gives him (the merchant) credit for the amount, and passes it over to his bank and himself receives credit for it on checking account; or, he might pass the item on to the wholesaler in the large city, who in turn gives the jobber credit, and discounts the paper at his bank. Under the Federal Reserve Association plan, the discounting bank may in turn rediscount the paper at the Federal Bank and receive bank notes for it, so that ultimately the paper will pass into the circulating medium of the country. If each transfer represents a commercial transaction—a sale of goods—there is no element of unsoundness in the process; but if fictitious undertakings and speculative enterprises are thus financed, accommodation loans made, there is danger in the process to be carefully guarded against, moreover such paper is not eligible for rediscount in the Federal Reserve Banks.

Banks and The Credit System

Chapter III

THE function of the bank is to gather the idle capital, and through its mobilizing power employ it effectively.

Money in bulk is always a powerful force in the credit system. Banks become effective parts of the credit system in proportion to their aggregated money accumulations and standing in the credit world; and their ability to lend their credit is based upon such holdings and augmented by their reputation and known conservatism. The essentials of a credit transaction are exchange and time. Credit does not appear in all exchange transactions, but exchange appears in all credit transactions, and out of such, perfect credit instruments arise.

Banking credit bridges over the period between raw material and the finished product. The manufacturer buys raw material on condition that he be allowed time to turn it into the manufactured article. He buys the material on credit and liquidates the debt by turning the manufactured article into money. But the seller may want his money long before it can be manufactured into finished goods, and so the bank intervenes, buys the credit on the manufacturer, and pays the seller at once. The bank is the perfect instrument for doing this because it has accumulated capital for just such purposes.

Banking Credit is Capital

Some economists claim that credit thus used is never capital, and can only be used to facilitate the process which terminates in the creation of capital, and increases its efficiency. Be this as it may, the use of bank credit assuredly augments and increases the efficiency of private capital. Thus a manufacturer with $50,000 capital makes 10 per cent., or $5,000 a year. Supposing he has $10,000 of his own capital and borrows $40,000 of a bank at 5 per cent., $2,000, and still makes the $5,000 gross, he would have $3,000 profit left, or thirty per cent. on his capital instead of ten.

The Function of Banking is to Lend Credit

The function of banking is to gather capital and lend credit. While in one form, banks may be said to create credit by issuing bank notes, their function is more particularly to certify to credit. And after the examination and certification of credit by the bank, credit unknown, but good, becomes a circulating credit and therefore the most effective form of credit. The discount system of Europe has most effectively developed this latter phase of banking in the certification of credit through acceptances.

Under the National Bank Act, a national bank was not allowed to lend on credit without setting aside a certain amount of cash, and it could not lend its credit. In the certification of checks, cash has already been set aside. They do not therefore lend their credit in this instance, or create new credit, but certify to the maker's credit and assume his obligation making it of such quality as to circulate more freely. But it involves cash. And whatever progress has been made by the American people towards a more scientific use of credit has been through a painfully slow process and in spite of inadequate laws and unscientific banking methods.

The average American bank simply collects the idle funds of the community and lends against them. It lends capital rather than credit, and only in such places as New York has the certified check become an important credit instrument.

Banks by virtue of their power to mobilize cash, may most efficiently exercise credit functions, and become the transferors and extinguishers of trade indebtedness; and a greater service could not be rendered society than this. The operation of setting debt against debt is best illustrated in the operations of the Clearing House.

Bank Credit Should Be Self-Liquidating

The quality of credit created by banks is tested by self-liquidation. A secured loan may have ample value back of it, but as a risk it is not nearly as sound as one which represents an exchange of values. In both England and Germany, collateral loans are quoted at higher rates than loans for purely commercial purposes. In panicky times commercial paper has proven itself a more liquid asset than the best of stock exchange loans. The trade loan will redeem itself by the process of consumption; while the stock exchange loan only redeems itself by sacrifice. The contrast between European and former Ameri-

can methods is the difference between the lending of money and the lending of credit. The distinction lies in the evidence of debt behind the loan. The bulk of the assets of the great banks of Europe are in bills of exchange and acceptances. Heretofore most of the assets of New York banks were on call loans, a distinctly commercial bank being so rare that it was made a feature in the advertising. Prior to the inauguration of the Federal Reserve System the commercial paper held by the banks of this country was regarded in the light of a secondary reserve; but in Europe it has always been regarded as a primary reserve, no distinction being made between cash and bills maturing, since the latter can be turned into cash at once by rediscounting with the central bank.

Lending and Borrowing on the Same Terms

The bank should not grant credit upon terms other than those upon which its credits are granted. If its debts are payable on demand, its credits must likewise be payable on demand, or by the operation of some outside agency, be turnable into cash upon demand, which amounts to the same thing. The discounting to a central institution, which uses these obligations as the basis of note issues is the perfect method by which a bank can employ its funds to the fullest extent, and yet have its assets always ready to respond to the demands of its creditors.

The European banks long ago recognized this principle and adapted themselves to it; while American banks have always heretofore been obliged to invest deposits payable on demand in bonds, both short and long time, paper of customers which they are in duty bound to renew and commercial paper of stated maturity with no means of rediscount at hand; thereby investing a *call obligation* in a *time security*. (The Federal Reserve system provides a remedy for this.)

To offset this weakness, the law required them to carry a large reserve—an obligatory reserve, (while in Europe a reserve was optional)—so that upon demand, at least a part of the calls could be met. But this, at critical times proved utterly inadequate, as it did in 1907.

Liquid Assets

Liquidity of assets can only be obtained by so arranging the maturities of loans that there is a constant turnover. Without a central discount market such as we have lacked, but which promises now to develop, the American banks have depended upon the following to keep their funds in liquid form: (a) Cash in bank and on deposit subject to call; (b) call loans on stock exchange securities; (c) a constant stream of commercial paper under which they are under no obligation to renew; (d) short term bonds with well selected maturities, and a broad market; (e) high grade bonds listed on the stock exchanges; (f) other bonds; (g) customers notes.

In Europe the call loan is not regarded even as a secondary reserve, commercial paper maturing from day to day, forms the perfect reserve, in that it not only matures and will be paid, but short term paper can be turned into money at will by rediscounting at the central bank. The central bank must hold gold enough to protect the notes issued against commercial paper, but the duty of turning liquid assets into circulating credits is the function and the principal function of the central bank. The cash holdings of banks, which is expensive, can thus be turned into interest bearing credits, and these, when needed, into money. There must be cash enough to meet the demands, and the belief that money can always be had for the asking is the safeguard of the business world. By this process an interest bearing credit becomes a circulating credit.

The Banker a Dealer in Credit

The banker is primarily a dealer in credit, and it is to him the public looks to keep the credit machine in good order. While he suffers in common with mercantile interest when the credit system is disturbed, the burden falls most heavily upon the business community. The banker always has his redress upon the borrower, but when his banker fails him the borrower has nowhere else to go but to the bankruptcy court. And for the sake of the public weal, the banker should at all times be in a solvent condition, by keeping the credit structure over which he presides, sound.

The volume of credit and its intrinsic worth is regulated by the banker, and as a governor of credit he can control both the quantity and the quality. A large volume of credit at too cheap a price results in speculation, and the banking system that does not properly control the flow of credit is faulty at its basic point.

The distinction between sound and unsound banking depends upon whether the commercial paper that comes into existence

is the result of genuine trade, or is merely fictitious. If it is merely to borrow money it may not be unsafe, but is a species of fiat paper that has no true value as an instrument of credit. Paper should liquidate itself; and borrowing money gives birth to no self-liquidating instruments.

While a single commodity may be the ultimate basis of several instruments of credit, the several transfers may be complete in themselves. Thus, if A sells goods to B and takes his note for six months; B sells the goods to C taking a four months note; C, in turn sells to D, taking a two months note, there will be three credit instruments out against the same commodity, but each will represent a distinct bargain and sale, and each meeting his obligation to the other will liquidate all.

Banks as Clearing Houses of Credit

The particular function of banking in connection with commercial paper is to collect the various obligations and "clear" the transactions as the clearing house clears checks. Debtors and creditors are constantly trying to get together and write off their debts against each other.

The Bulk of Bank Deposits Book Credits

The bank deposit is a more dangerous instrument of inflation than bank notes. There is a limit to the amount of notes the people will take and use, but no limit to the bank deposits that may be created by the operation of credit.

The bulk of the bank deposits are merely book credits. When a man borrows $5,000 on his note and has the same credited to his account, the liabilities are swelled by the same amount and so are the assets. The borrower checks out the credit thus created, and these checks are deposited in other banks and again go to swell the deposits. By making the loan the bank has added $5,000 to the buying power of the community, and the buying power thus created is existent while the loan remains in force. This is the cause of inflation. The danger lies in the too free use of this credit in prosperous times, so that when depositors lose confidence a sudden demand for cash finds the banks unable to meet the call. Canada can create bank notes as needed and retire them when not wanted, and use the check book as freely as we, and as a result never has a currency panic or a suspension of specie payments; while we, heretofore, have met a sudden demand for cash by curtailing credit, selling securities and calling loans—all because the book credits were payable on demand and the basis of the credit impossible to turn into money until maturity, and sometimes not then.

Commercial Paper in The United States

Chapter IV

COMMERCIAL paper, in its broad significance, includes all forms of instruments that arise from the operations of commerce. As commonly understood in banking and financial circles, however, the term has been narrowed to have particular reference to notes sold to banks through commercial paper brokers. It is sometimes designated as "purchased paper," as contradistinguished from discounted paper of the bank's own customers.

As a bank investment it has become very popular, it having been authoritatively stated that over $1,700,000,000 of such paper has been sold in a single year by brokers to banks throughout the country, representing the obligations of upwards of 3,000 business concerns.

The reasons for borrowing through this channel are two: First to take advantage of the broad market, and secondly to obtain the lower rates that the broad market affords. This is not to say that home banking facilities are not availed of, but in small places the rates are usually higher than in money centers, and it is a recognized principle of borrowing in this country, that the home banking connections shall not be overstrained, so that there will always be an "anchor to the windward" in the event that open market borrowing becomes difficult.

The chief merit of commercial paper as an investment lies in the fact that it comes in large denominations; is of short maturity, and does not fluctuate like stocks and bonds. It is worth par at all times. The commercial paper now in existence in the American market consists of (a) Promissory notes signed by a firm, individual, or corporation issuing the same promising to pay a specified amount to a certain party at a certain time;

(b) bills of exchange, usually accompanied by documents; (c) collateral loans, usually on collateral note protected by warehouse receipts, trust receipts, stocks, bonds, etc.; by which specific property is pledged as security; (d) notes protected by mortgage security, either real or chattel.

Forms of Paper

Commercial paper in the sense used today by banks and bankers consists of first, promissory notes made in uniform denominations, usually running from three to four months, and as a rule sold through note brokers, the proceeds of which are used to take advantage of trade discounts.

The second form of commercial paper is known as "receivables." In the nomenclature of the trade, a "receivable" is a note given by the buyer to the seller in payment of a bill. The note is endorsed by the payee and sold through brokers or to a bank direct, and constitutes "two-name paper." Of such character is the note of the retail merchant given to the jobber which when endorsed and sold becomes a receivable. It is prima facie evidence of a business transaction, and needs no other corroborative proof of its genuine character. The advantage is that the transaction is closed at once, and the business of financing the matter falls on the banks and not upon the business house.

Endorsed Paper

"Endorsed paper" differs from receivables in that the endorsement is added either for the express purpose of giving strength to the note, or to insure moral backing. Thus the endorsement of an individual on the note of a corporation is evidence of the faith in the maker and adds personal to corporate liability.

Present Custom a Growth

The present custom of issuing commercial paper is the out-growth of a process of evolution. Trade bills—notes given by merchants in the settlement of debts, were formerly in common use. With the introduction and expansion of the cash discount, single name paper began to grow in favor, so that at the present time, this form of paper predominates in the American market, it being estimated by commercial paper brokers who are well informed, that fully 90% of the paper is single name. With the advent of the credit department in banks, and the highly organized credit departments of paper brokers, commercial paper has largely supplanted bond investments.

The methods of certain trades are so firmly established that any sudden change in the credit operations would work revolution in the business which would, no doubt, be dangerous if not disastrous. For instance, in some lines, like textiles, the dating ahead of all sales, the book account form of credit, the assigning of accounts to a factor, is so characteristic of the trade that to insist upon promissory notes would be almost impossible. The business is built up around the custom, and financial arrangements have been made accordingly. The trade discounts in some lines are so liberal that to neglect to take advantage of them is costly both in money and credit. For instance in tea the discount is 9%, and coffee 8% for cash, ten days. In order to obtain the cash for such discount operations, the paper of the merchant is sold in the open market through brokers, and all bills discounted.

It is not customary to have two kinds of paper out, i. e., single name paper of the merchant, and his receivables. If a firm were to borrow on its open credit on single name paper, and then sell its bills receivable, it would weaken its financial standing and its financial condition, since it had parted with its choicest and quickest asset, and have a primary and secondary obligation outstanding at the same time.

Commercial Paper and Note Issues

It is a principle of sound banking that no advance of bank credit should be made except to facilitate exchanges—to anticipate a deferred payment. The payment of the mercantile debt should cancel the bank debt, so that the term of the latter should be short, not longer than the time needed to turn the material into money. Loans for any other purpose are not of the sort that expedite business. Loans for carrying securities or for speculation of any sort are not of prime quality, as viewed from the liquidation standpoint, since the security must be sold in order to cancel the debt; while in commodity loans the security must be consumed.

It is clearly the intent of the Federal Reserve Law that the note issues should be based upon paper arising out of mercantile transactions and the Federal Reserve Board has decided to place this restriction upon all paper that is accepted for rediscount.

Single Name Paper

The use of single name paper dates from the Civil War. Prior to that time, "trade

paper"—merchandise notes, was the custom; but the Greenback troubles, and the uncertainty of the value of a credit instrument running over a long period, brought about a change of method and sellers generally desired cash and made concessions for prompt payment. The period of credit was shortened (before the war, credit running as long as six months, or longer, was not uncommon) and due concessions were made for quick settlement. The inducements to pay cash were so great that the merchant could not afford to neglect them, and failure to do so was to invite criticism of his standing.

In order to obtain funds to make such payments, merchants sold their single name notes through brokers (first on commission and then gradually the brokers became purchasers, depending upon their ability to promptly place their purchases and thus avoid loss) and with the proceeds pay cash for all purchases.

The market for single name borrowing has been largely restricted to firms with large capital and well known credit, some brokers refusing to handle paper of concerns of less than half a million assets; but as the benefits become known this form of borrowing spread to small and sometimes weak concerns. The merchant or manufacturer who receives a note in payment for his goods, holds the same in his portfolio, and issues his own paper. This eliminates the circulation at the same time of two kinds of paper with the same names, the single and the double—the primary and secondary liability.

The Advantages of Single Name Paper

The disadvantage of the acceptance form as against the practice of borrowing in the open market on single name paper and taking the cash discount is the simplicity of the single name transaction. Thus a merchant sells twenty notes for $5,000 each, and probably pays several hundred bills with the proceeds. Under the acceptance or two name form he would put into circulation as many credit instruments as he had payments to make which would congest the bankers' portfolios, necessitate additional bookkeeping, and add to the cost in the collection departments. Of course, the seller of the notes draws as many checks as there are bills to pay, but these are quickly redeemed and pass out of existence and do not require the same bookkeeping detail as do notes. At the hearing before the Merchants Association in New York, in March, 1914, it was the opinion of most of the members present that it would be impossible for them to obtain notes from their customers, and in order to carry them on open account it would be necessary to continue single name paper.

One of the criticisms against single name paper is that it is to the broker's interest to keep as much of this paper out as possible; often when the needs of the borrower could be met by the home banks. At maturity other notes are issued to take up the maturing ones and the result is a constant stream of notes, in some instances representing fixed investments.

It sometimes happens that more than one broker is employed, which of course results in inflation, since there is no check on the amount outstanding.

Two Name Paper

While single name paper may be based on an account receivable, two name paper is the embodiment of an account receivable.

The depreciation of bonds, and the difficulty in selling under panicky conditions has brought about a substitution of commercial paper for bonds as a short time investment, which has led to keen competition by brokers for business, and as in all other lines weaknesses have crept in as competition has developed.

To issue two name paper requires two concerns that are well enough versed in business practices to make a note on one hand and to have it turned into cash on the other.

Two name paper not only has the added protection of an extra name, but the added safeguard of a formal acknowledgment of the amount due and the existence of the debt. It is obvious that with the cost of the trade discount system, from 12 per cent. yearly and upwards, that two name paper has a decided advantage in the lessened cost. If this charge were not placed on the business world, goods could be sold for the manufacturing cost plus a profit, and the debt settled by note, the discount of which could not exceed the legal rate, the cost of credit would be considerably lessened.

Whatever the merit of single name paper, two name paper would be more acceptable in other countries, first because they are accustomed to such paper, and secondly it carries its insignia with it.

There is this to be said, however, against two name paper, the endorsement of a "receivable" and its sale introduces a contingent liability, which while remote, may be worth considering. Single name paper is a direct,

primary obligation. The book account is closed by cash and the debt is to the bank. With two name paper, the debt account, while settled, still exists in another but contingent form.

On the other hand there are two very obvious advantages in the double name paper: (a) The self-evidence of a business transaction, Being given by the buyer to the seller to liquidate a trade transaction, and in an odd denomination, it is prima facie a trade instrument. (b) It has the double liability of the two names. While in some instances two names may not be any better than one good one, nevertheless it is recognized abroad that two names are generally stronger than one. No further proof than the paper itself is needed that it is a bona fide instrument arising out of business transaction, while in the single name instrument additional proof or statement might be necessary to prove it had been given for the purpose contemplated by the Federal Reserve Act.

The Commercial Paper Dealer

The commercial paper dealer has of recent years become a most important factor in the banking business of the country, inasmuch as he has been the go-between between the bank having funds to invest and the borrower needing accommodation. He is a most vital part of the money market machinery.

In the first place he covers the country, both in buying and selling paper, and knows the field. He knows the needs and preferences of the banks and the conditions of the borrowers. He has a credit organization that gives him an accurate check upon the paper offered and a reputation to sustain. His offerings are synonymous with quality. He works on a small margin, and must sell large quantities to make any great profit.

In the second place the dealer knows his customer. He investigates his credit risk with much care before contracting to handle his paper, and this relation once established, is lasting. The borrower knows that he will be taken care of and the broker knows he will have a steady supply of paper to offer, and need not go to the expense of a new investigation at every issue.

Having determined the fact that the paper is desirable to offer, great care is used to know that it is genuine. Copies of the by-laws, if a corporation, are filed, showing the process required in borrowing. The authorized signatures are filed, and all due precaution used to insure that the paper is authoritatively signed, and when so issued becomes the binding obligation of the issuer; for by the law of forgery it would be no obligation if unauthorized.

The question arises as to how far the dealer is liable for unlawfully issued paper. Most houses specifically guarantee that the paper is genuine; some make no guaranty, but agree that the dealer would be responsible for any irregularities. The fact that the paper is sold by a house of standing is sufficient to warrant its quality.

Most of the leading houses pay the borrower upon receipt of the paper in cash less the commission. Some of these are large enough to borrow of the banks, sums running into the millions on their single name paper, and do not hypothecate the paper bought; while others less strong pledge the paper as collateral.

The paper is then offered through the mails and traveling representatives to the banks, and purchased by them, sometimes under option extending from a week to ten days or to the next board meeting. Some houses do not extend options any more, but sell outright. None of the dealers endorse the paper. Credit statements are furnished if desired together with full information as to the borrower's condition.

As an intermediary the dealer has been able to extend the borrower's field of operations throughout the country. And contra to bring to the banks in all parts of the country the very best paper the country produces.

The turnover of commercial paper must be enormous. The total loans of 25,993 banks in the United States on June 4, 1913 was \$3,547,695,105. Assuming that one-third represents paper bought in the open market, and that the average time is four to six months, giving a turnover of two to three times yearly, would make the total handled in the course of a year about \$2,300,000,000. There are several firms now handling over one hundred millions yearly.

In selling paper, dealers give upon request not only a digest of the statement, but also list of houses from whom trade references may be obtained and also banks which have handled the paper before.

The nearest approach to a discount market in this country at the present time is the market created by these paper dealers, who know where the demand exists and where the supply is to come from.

Principles of Borrowing

It is a recognized principle of borrowing, that loans for permanent improvement, such as the acquisition of land, machinery, build-

ings, and other fixed assets, should be in the form of stocks and bonds, the latter with mortgage security; while for current purposes, —for liquid capital to handle the turnover of the business, another form of borrowing, which may be termed liquid borrowing is proper. That is to say, the loan should liquidate itself—pay itself off, by the automatic turning into money of the commodities represented by the loan; for every loan of this character should be for the purpose of financing a business operation. And when the purpose of the loan is completed, the instrument that arose at the inception of the trade should disappear and another take its place.

If $100,000 of single name paper is put out for the purpose of taking the trade discounts, when the goods are sold to the next in line, and payment made therefor, the single name paper should go out of existence. And another set of instruments come into being to finance another transaction.

A stock of canned goods would be consumed in the course of a year at the most; and to issue bonds for such articles would be against good borrowing principles, while six months paper would be proper. A loan for the purpose of buying cattle for feeding for the slaughter, would be perfectly proper, and paper secured by such collateral eminently safe; but it should liquidate itself as soon as the cattle are sold to the meat packers. And no paper is bad that is self-liquidating.

The present method of determining the quality of commercial paper is to ask, first, for a statement, which must be of recent date; then to analyze it and determine if the ratio of obligations to debts is within the prescribed limits, usually two of quick assets to one of quick liabilities.

The proportionate amount of quick assets to quick liabilities is a matter concerning which some bankers and credit men do not agree; but the ratio runs from one and a half to two and a half to one, depending upon the character of the business. An intimate knowledge of the maker of the paper would permit a narrower margin than if the paper were a long distance from its issuing point. Moreover the value of the fixed assets can be more accurately determined in the case of home concerns.

The character of the business, the gross and net profits, etc., which indicate the skill of the management may be ascertained; then to check the paper through the trade—that is, to ascertain from mercantile houses if the maker takes advantage of the trade discounts; whether bills are promptly met or not, and lastly to inquire of banks that have bought the paper and therefore investigated it themselves, if they have found it satisfactory both upon inquiry and at maturity.

The statement should be recent, certainly within two to three months, and if possible statements for previous periods should be obtained for comparison, to ascertain how the business has progressed. Certain classes of trade such as wool and grain must do all buying in a short period and are therefore heavy borrowers during the buying season, and a statement should be obtained at the height of the season, and one at the ebb, to show the fluctuation; for in such lines some firms clean up and go out of debt after the selling season is over and before buying begins for a new year.

The Buying of Commercial Paper

In buying commercial paper no hard and fast rules can be laid down, but the general principles of credit apply, and the paper must have the same qualities that the borrower would be expected to have if he were to apply for a loan on his single name note. The maker must have character—business reputation built up by a career of honest dealing. He must have demonstrated the capacity to run a business; to conduct it with efficiency; and he must have resources ample to furnish backbone for the business, so that the borrowing shall be for current needs only. It is no function of the bank to furnish permanent capital. This must be done by private capital, bond and stock issues.

As in granting credit there are no fixed rules, so in analyzing a credit statement there are no infallible tests that may be applied; it is an art acquired in the school of experience supplemented by observation and study. Each proposition must be considered by itself in the light of the data at hand, and judgment rendered accordingly. A knowledge of the trade customs and methods is useful; likewise the manner of extending credit in the particular line; buying and selling methods, discounts, datings, etc., are all well to know as helps to determine the credit risk; and the credit man's work is never done—there is always "something doing" in his department.

As in purchasing securities basic rules and principles are applicable as a guide, so in the purchase of commercial paper, there are accepted principles that apply to all paper. For instance, in buying stock, a long record

of uninterrupted dividends is a most healthy sign, and the test can be applied to any security. So also in buying paper, a record of achievement of profit making extending over a series of years is a sure indication of able management and profitable operation; and the test is not difficult to make; while a critical examination of the statement requires skill and experience not generally possessed by the average banker. A few general rules applicable to the purchase of commercial paper as a broad science will be helpful; but they are at best but generalities, detailed discussion being quite beyond the possibilities of the present work.

General Rules for Buying Paper

1. *Buy of Responsible Dealers.*—The first and foremost requisite is that the paper be bought of a dealer of standing, whose name is synonymous with quality, whose credit department has made a thorough investigation of the risk, and pronounced it good enough to offer over their name. There is no warrant, however, no matter how large the house, that the note will be paid; the only warranty being implied, that the paper is genuine and is what it purports to be.

2. *Diversify the Risks.*—The line of paper carried by a bank should be diversified, both as to classes of paper and location of the borrowers. The paper bought from brokers should not be in the same line of industry that absorbs loanable funds at home. It is easy to distribute the risk, both as to amount and as to the trade and the sectional risk. While one trade is dull another might be good; and while one section of the country suffers from depression, other sections might be prosperous. Following the advice so often quoted, it is a good policy not to have all the eggs in one basket. No single loss can then seriously affect the bank's condition.

3. *Buy Paper based on Staple Commodities.*—The paper should be of concerns dealing in necessities of life, and commodities having a wide market, and not such as have limited utility and are subject to the whims of fashion.

Since the proceeds of paper is to go into merchandise, it is needful that the merchandise be of a selling quality. It must be staple. Paper that is issued for some seasonal whim of women would be risky as against paper issued for groceries or meat. Paper issued for rare groceries or drugs would be exceedingly slow in moving. In the mercantile world, commercial paper becomes stock and the stock, accounts receivable; these in turn cash to meet the maturing paper. In manufacturing, commercial paper becomes raw material, the raw material finished product; this, accounts receivable, and these money to meet the paper.

A certain New York wholesale grocery prided itself on the fact that it could meet any call for any article likely to arise. It had a large and extensive stock, some slow moving. It was not making money. It did not have the turnover it should for the capital employed. It decided to abandon its policy and put in a quick selling stock, and depend upon its ability to get rare articles on call rather than keep the same in stock.

It is obvious that the paper of this house issued after it changed its policy was much better quality than that represented by its former stock of slow selling merchandise.

The difference between paper sold for financing luxuries and paper issued for necessities may be appreciated by the fact that a large automobile concern states that it sells all touring cars for cash, but trucks on time, knowing full well that the latter will help pay for themselves, while the former will be an item of expense to the owner.

4. *Buy Paper of Established Concerns showing Healthy Growth.*—All healthy business is the result of growth. But few of the large industries of the country were made to order. There are a few department stores that have been established in large cities by men who have been successful in other places, and there are many large concerns that are the result of combination of smaller ones; but in the last analysis they are growths and not creations. It is apparent that the business that has grown from the acorn to the oak is a much better risk than one made to order. There must be a history of achievement. A successful history is essential to success for it demonstrates not only success in the past, but the probability of continuance in the future.

5. *The Same Concern Should not Issue Single and Double Name Paper.*—When a concern floats its single name paper it is for the purpose of taking advantage of the trade discounts, and if its receivables appear on the market at the same time, it indicates that it is not taking the discount for all purchases and is pinched for capital. Therefore only one form of paper of the same concern should appear on the market. Its receivables are its best quick assets and should not be sold.

6. *No Large Amount of Bills Payable Should Appear on the Statement when Single Name Paper is Issued.*—Commercial paper (single

name) being issued for the purpose of taking trade discounts, no large amount of bills payable should appear, for it is for the purpose of paying cash that the single name paper is sold.

7. *Check Through Local Banks and Purchasing Banks.*—Local banks are in close touch with general business conditions at home and the standing of borrowers. They know how they live, their habits, their local reputation, and can, and generally will give information at first hand regarding these points. Local bank connections should be carefully inquired into.

The banks used for references should have been purchasers of the paper within recent period, for credit risks change quickly, and what might have been a good risk six months or a year ago, might at the present time be undesirable on a recent investigation. But if a well known bank has bought the paper upon investigation and found it satisfactory it is good evidence that it is a desirable purchase.

8. *Check Through the Trade References.*—Trade references, at least three, should be checked to ascertain the credit standing in the trade. If discounts are taken as a fixed policy, it is a sign of strength. If bills are allowed to lapse, collections slow, and the account generally unsatisfactory, it is assuredly a sign of weakness.

9. *The Statement Should be Verified by an Independent Audit.*—The statement should, if possible, be one made by independent accountants who have nothing at stake in the matter but their reputation for accuracy. It is an inherent weakness for a man to magnify his assets and minimize his liabilities, and even though the statement be made in perfect good faith, it may be biased in favor of the issuing concern.

Certified Audits and Registration of Paper

There are two movements in connection with commercial paper that augur well for the safety and stability of these instruments in banking transactions, namely the independent audit and registration. The independent audit has for its object the ascertainment of the financial condition of the borrower by an independent party whose sole object is accuracy. Borrowers, however honest, are not the proper ones to certify as to their condition. The assets are apt to be magnified and the liabilities understated, and only a careful audit, or to use accountancy terms correctly, an investigation, will assure the real condition. This should be made by recognized firms of public accountants, and should be periodical and compulsory for all borrowers. Credit men, bankers, and clearing houses are taking cognizance of the value of such an audit and lending their support to the movement. Some time ago the Louisville Clearing House sent out notices to banks and borrowers in the Louisville District suggesting that such an audit of borrowers be made as preliminary to further extension of credit.

This audit will not only reveal the financial condition of the firm, but also its liabilities on commercial paper, if such a record is kept, and if not the audit will soon place this information in the hands of the bankers.

The Federal Reserve Association would seem to be the proper medium through which such a campaign may be waged, and with the moral force of the Federal Banks back of the request for an audit such action will doubtless follow. Moreover credit may be refused all firms not complying with the request to furnish proper certificate of condition. It is of importance to the business man that he know where he stands, and of more import to the banker who lends him money; for while false statements of condition for the purpose of obtaining credit are a penal offense, the redress usually comes too late, and it is frequently hard to prove that the error was intentional; and losses cannot be compensated by prison sentence. The prevention is better than the penalty.

Registration of Paper

The second safeguard is the registration of all paper sold in the open market. This registration has had the attention of various banking bodies since 1908 when a committee of the American Bankers' Association, made an exhaustive study of the subject and recommended that there be some supervision of the issuance of paper offered in the open market. The committee also recommended an annual audit of firms issuing paper, and the registration of paper under the supervision of Clearing Houses in New York, Chicago, St. Louis, Philadelphia, and Boston. Under this plan banks buying commercial paper through dealers would have prompt and ready access to an independent appraisal of the assets of each borrowing concern, certified by an approved public accountant, and could promptly ascertain at any time the amount of paper outstanding. The Clearing Houses did not favor the plan and nothing came of it.

In 1912, a Central Bureau of Credit Information was proposed to the Association, to be capitalized and supported by fees, the object of which was to safeguard paper by furnishing information relative to credits, registration to be performed by selected banks and trust companies. This plan has also failed to enlist support, but the three avenues of registration that are open are: Trust company registration, Clearing House registration, and registration under the Federal Reserve Association.

In 1910 a large manufacturing company with a large output of paper and country wide trade arranged to have its paper registered with a New York trust company, the registration to include notes issued, notes indorsed and drafts accepted. Daily reports are made to the corporation and by the corporation, so that the amount of paper outstanding at any particular time may be accurately known. Other companies have followed this idea.

Under a clearing house plan, firms in clearing house cities, could register their paper with the clearing house. In fact the country might be divided into zones, so that every part of the country would be included in a credit zone. All paper issued could be registered with its zone center clearing house, and here be available for the banker's use.

The Federal Reserve Association has the power and the machinery for putting such a plan into effect. If it refuses to discount any but registered paper, it will wield a mighty force in that direction.

The registry of paper will accomplish two very desirable things: It will certify to the authenticity of paper and the regularity of its issue. Bogus paper does not often get into banks, especially when bought of reliable dealers who use due safeguards to see that paper is regularly issued. But it has been demonstrated that paper might be genuine and yet doubtful. Cases have been brought to light in recent years where large amounts of paper have been issued with authority, yet it was nevertheless unwarranted and merely accommodation paper.

Registration will check the amount outstanding. The recent Claflin failure demonstrated above all things that there is need of machinery for officially determining how much paper is outstanding at any particular time. The volume of the Claflin paper was unknown, unless it was to a very few, and a system of registration of such paper would have advised banks of the amount outstanding and the load the firm was carrying and place them on guard.

It is conceivable that firms will not take kindly to such a practice, as it will divulge their trade secrets; but a firm that is unwilling to have its indebtedness known is unwarranted in assuming to borrow in the open market.

Commercial Paper in the Trades

Chapter V

BROADLY speaking all business concerns borrow; it is needful and proper that they should, for by so doing, the business can be greatly extended and its profits enhanced. There are a few concerns strong enough in their individual capital to pay cash for all purchases, but these are few. And with the custom of trade discounts prevailing in this country, it would be an act of business folly to refuse to borrow when a distinct profit accrues through borrowed funds.

Borrowing follows certain established lines, depending upon the customs of the business as they have grown up in the particular trade or industry; but the recognized methods are seven: (1) From the local bank on note of hand, with or without indorsement; (2) from the local bank on notes of customers given in trade transactions and discounted with the bank; (3) from the local bank on pledge of security in the form of stocks and bonds, warehouse receipts, bills of lading, etc.; (4) on promissory notes (single name paper) sold through brokers in open market; (5) on receivables (customers' notes) sold likewise through brokers; (6) on accounts receivable assigned to or discounted with banks or business factors, and (7) for capitalization purposes on mortgage security, stock and bond issues.

The scope of this work does not permit each trade and industry to be reviewed separately in respect to its financial methods and general scheme of operations, but in order to show the part which credit and credit instruments play in such operations, it is

Exchange for £991-7-6 New York, Nov 16 1904

Sixty days after Sight of this First of Exchange (Second unpaid) pay to the order of Ourselves in London the sum of Nine hundred ninety one Pounds Sterling 7/6

Value received and charge the same to account of Sto L'pool

Bales Cotton marked

To Brown Jones & Co
Liverpool
England

No. 3991

Weld & Neville

Countersigned

Exchange for £991-7-6 New York, Nov 6 1904

Sixty days after Sight of this Second of Exchange (First unpaid) pay to the order of Ourselves in London the sum of Nine hundred ninety one Pounds Sterling 7/6

Value received and charge the same to account of Sto L'pool

Bales Cotton marked

To Brown Jones & Co
Liverpool
England

No. 3991

Weld & Neville

Countersigned

Attention of Shippers is called to Sec. 235 of the Criminal Code of the United States (Act of Congress March 4th, 1909)

Every package containing explosives or other dangerous articles, when presented to a common carrier for shipment shall have plainly marked on the outside thereof the contents thereof; and it shall be unlawful for any person to deliver or cause to be delivered to any common carrier engaged in interstate or foreign commerce by land or water, for interstate or foreign transportation, or to carry upon any vessel or vehicle engaged in interstate or foreign transportation any explosive or other dangerous article under any false or deceptive marking, description, invoice, shipping order or other declaration, or without informing the agent of such carrier of the true character thereof, at or before the time such delivery or carriage is made. Whoever shall knowingly violate or cause to be violated any provision of this section ... shall be fined not more than $2,000, or imprisoned not more than eighteen months, or both.

WHITE STAR LINE
NEW YORK AND LIVERPOOL

Received, in apparent good order and condition, by the OCEANIC STEAM NAVIGATION CO. (Limited) from WELD & NEVILLE, to be transported by the Steamer Baltic now lying in the port of NEW YORK, and bound for LIVERPOOL with liberty to call at any port or ports in or out of the customary route, or failing shipment by said steamer in and upon a following steamer,

One Hundred Bales Cotton

being marked and numbered as per margin, shippers weight, (quality, quantity, gauge, contents, weight and value unknown) and to be delivered in like good order and condition at the Port of LIVERPOOL, (or as near thereto as she may safely get) unto order, notify Smith & Co L'pool or to his or their assigns, he or they paying freight, primage and charges immediately on discharge of the goods, without any allowance of credit or discount, at the rate of

...Shillings...pence Sterling with 5 per cent. primage per 40 cubic feet.

...Shillings...pence Sterling with 5 per cent. primage per barrel.

...pence Sterling with 5 per cent. primage per bushel of ... lbs. gross weight delivered.

Forty five cents per 100 pounds

...Shillings...pence Sterling with 5 per cent. primage per ton of 2240 lbs. gross weight delivered.

IT IS MUTUALLY AGREED that the steamer shall have liberty to sail with or without pilots; to tow and assist vessels in distress; to deviate for the purpose of saving life or property, that the carrier shall have liberty to convey goods in craft and/or lighters to and from the steamer at the risk of the owners of the goods, and, in case the steamer shall put into a port of refuge, or be prevented from any cause from proceeding in the ordinary course of her voyage, to tranship the goods to their destination by any other steamer; that the carrier shall not be liable for loss or damage occasioned by fire from any cause or wheresoever occurring; by barratry of the master or crew; by enemies, pirates or robbers; by arrest or restraint of princes, rulers or people, riots, strikes or stoppage of labor, by explosion, bursting of boilers, breakage of shafts, or any latent defect in hull, machinery or appurtenances, or unseaworthiness of the steamer, whether existing at time of shipment, or at the beginning of the voyage, provided the owners have exercised due diligence to make the steamer seaworthy; by heating, frost, decay, putrefaction, rust, sweat, change of character, drainage, leakage, breakage, vermin, or by explosion of any of the goods, whether shipped with or without disclosure of their nature, or any loss or damage arising from the nature of the goods or the insufficiency of packages; nor from inland damage; nor for the obliteration, errors, insufficiency or absence of marks, numbers, address or description, nor for risk of craft, hulk or transhipment; nor for any loss or damage caused by the prolongation of the voyage, and that the carrier shall not be concluded as to correctness of statements herein of quality, quantity, gauge, contents, weight and value. General average payable according to York-Antwerp Rules. If the owner of the steamer shall have exercised due diligence to make said steamer in all respects seaworthy and properly manned, equipped and supplied, it is hereby agreed that in case of danger, damage or disaster resulting from fault or negligence of the pilot, master or crew in the navigation or management of the steamer, or from latent and other defects, or unseaworthiness of the steamer, whether existing at time of shipment, or at the beginning of the voyage but not discoverable by due diligence, the consignees or owners of the cargo shall not be exempted from liability for contribution in General Average, or for any special charges incurred, but, with the shipowner shall contribute in General Average, and shall pay such special charges, as if such danger, damage or disaster had not resulted from such fault, negligence, latent or other defects or unseaworthiness.

IT IS FURTHER AGREED that in addition to the liability of any other person as owner of the goods, shipper shall be liable for all contributions in general average and special charges payable in respect of the goods, whether or not he be liable therefor as owner of the goods.

IT IS ALSO MUTUALLY AGREED that this shipment is subject to all the terms and provisions of, and all the exemptions from liability, contained in the Act of Congress of the United States, approved on the 13th day of February, 1893, and entitled "An Act relating to the navigation of vessels," etc.

1.—IT IS ALSO MUTUALLY AGREED that the value of each package receipted for as above does not exceed the sum of one hundred dollars, unless otherwise stated herein, on which basis the rate of freight is adjusted.

2.—ALSO, that the carrier shall not be liable for articles specified in Section 4281 of the Revised Statutes of the United States, unless written notice of the true character and value thereof is given at the time of lading and entered in the bill of lading.

3.—ALSO, that shippers shall be liable for any loss or damage to steamer or cargo, caused by inflammable, explosive or dangerous goods, shipped without full disclosure of their nature, whether such shipper be principal or agent; and such goods may be thrown overboard or destroyed at any time without compensation.

4.—ALSO, that the carrier shall have a lien on the goods for all freights, primages and charges, and also for all fines or damages which the steamer or cargo may incur or suffer by reason of the illegal, incorrect or insufficient marking, numbering or addressing of packages, or description of their contents.

5.—ALSO, that in case the steamer shall be prevented from reaching her destination by Quarantine, the carrier may discharge the goods into any depot or lazaretto, and such discharge shall be deemed a final delivery under this contract, and all the expenses thereby incurred on the goods shall be a lien thereon.

6.—ALSO, that the steamer may commence discharging immediately on arrival and discharge continuously, any custom of the port to the contrary notwithstanding, the Collector of the Port being hereby authorized to grant a general order for discharge immediately on arrival, and if the goods be not taken from the steamer by the consignee directly they come to hand in discharging the steamer, the master or steamer's agent to be at liberty to enter and land the goods, or put them into craft or store at the owner's risk and expense, when the goods shall be deemed delivered and steamer's responsibility ended, but the steamer and carrier to have a lien on such goods until the payment of all costs and charges so incurred.

7.—ALSO, that if on a sale of the goods at destination for freight and charges, the proceeds fail to cover said freight and charges, the carrier shall be entitled to recover the difference from the shipper.

8.—ALSO, that full freight is payable on damaged or unsound goods; but no freight is due on any increase in bulk or weight caused by the absorption of water during the voyage.

9.—ALSO, that in the event of claims for short delivery when the steamer reaches her destination, the price shall be the market price at the port of destination on the day of the steamer's entry at the Custom House, less all charges saved.

10.—ALSO, that merchandise on wharf awaiting shipment or delivery be at shipper's risk of loss or damage not happening through the fault or negligence of the owner, master, agent or manager of the steamer, any custom of the port to the contrary notwithstanding.

11.—ALSO, that this bill of lading, duly endorsed, be given up to the steamer's consignee in exchange for delivery order.

12.—ALSO, that freight prepaid will not be returned, goods lost or not lost.

13.—ALSO, that the carrier shall not be liable for loss or injury, or detention to packages intended for different consignees but made up into one package, unless the contents and value of each separate package be given before shipment, and freight paid accordingly.

14.—ALSO, that the Master Porterage of the delivery of the Cargo be done by the Consignee of the Steamer, and the expense thereof be paid by the Receivers of Cargo.

15.—ALSO, that the Steamer shall have liberty to carry cattle, horses, sheep and other animals and other cargo on deck.

16.—ALSO, that where grain is stowed together with other grain without separation either from the same or other shipper, each bill of lading to bear its proportion of loss and, or damage, if any.

AND FINALLY, in accepting this Bill of Lading, the Shipper, Owner and Consignee of the goods and the Holder of the Bill of Lading, agree to be bound by all of its stipulations, exceptions and conditions, whether written or printed, as fully as if they were all signed by such Shipper, Owner, Consignee or Holder.

In Witness Whereof the Master or Agent of the said steamer hath affirmed to 2 Bills of Lading, all of this tenor and date, one of which being accomplished, the others to stand void.

Dated in NEW YORK this 16th day of Nov 1914

For the WHITE STAR LINE.

Smith

FORWARDING CLAUSE:—Applying only if the within goods are contracted for delivery beyond Liverpool.

The goods specified in this Bill of Lading are to be forwarded to ... by ... at the expense of the Steamship Company, but subject to the conditions of carriage of the Carrier by whom the goods are forwarded. Upon delivery of the goods from the ship's tackle at Liverpool the Steamship Company ceases to act as carrier, but is constituted forwarding agent without responsibility. The through freight is charged in respect of and includes only the ordinary expenses of transit to ... Rates being owner's risk rates when same are quoted by carrier by whom the goods are forwarded. In event of the usual means of conveyance from Liverpool to the place of destination, and the delivery of the goods thereat being delayed, impeded, interrupted or suspended, the Steamship Company may in its sole discretion and option, forward the goods to the nearest available place, this to be considered a final delivery, or may store and warehouse the goods. The charges and expenses connected therewith, and any other charges incurred by the Steamship Company in addition to such ordinary expenses of carriage and transhipment shall be paid by the consignee, and the Steamship Company may exercise a lien on the goods until such expenses are paid.

MARKS.

ABC 100 No

... Ft. ... In. per 40c. ft.	£ ...
53150 lbs @ 45c per 100 lbs	£ ...
... @ ... per 2240 lbs.	£ ...
5 per cent. Primage	...
Charges	
Total £	

Ship's Mark Red.
Shipper's Marks Unknown.

proposed to review briefly the salient facts regarding a few of the leading industries, representing the three fundamental economic wants of mankind, namely, food, clothing and shelter. We shall, therefore, give a brief résumé of the movement of a cargo of grain from the farmer to the bread eater; wool from the sheep's back to the wearer; leather from the hide to the pair of shoes; lumber from the forest to the dwelling; cotton from the field to the loom.

We also give facsimiles of some of the documents used in financing the export trade of a few of the leading products, viz., the draft or bill of exchange, bill of lading, insurance certificate, invoice, certificate of inspection, etc.

It will be found that the financial operation of these industries include all the standard forms of borrowing, from the bond issue to the hypothecation of the accounts receivable.

It will also be found that the lower down in the scale of business operations, the less scientific is the credit. Goods moving from the original producer to the wholesaler as a rule are on practically a cash basis; from the wholesaler to the manufacturer on book credit or on note, the credit element of which has been carefully considered. From the manufacturer to the retailer or jobber on credit likewise carefully investigated. But when the goods go from retailer to the consumer on credit, it is often on casual acquaintance and trust in the buyer's honesty. And because of the lack of careful credit operation, many retailers fail.

The failures of general stores, grocery, meat and fish dealers in 1913 totalled 4,389 out of 11,145 for all traders in the United States, showing a decided tendency on the part of the retailer to over extend his credit; for most failures are in the last analysis due to poor credit risks. Moreover, the amount involved in the failures of small traders was $28,000,000 out of a gross total of $115,000,000 for all traders, or about one-fourth.

Raw Material Moves for Cash

As a general proposition raw material moves from the producer to the manufacturer on cash. The goods are usually shipped on bill of exchange, with documents attached. The documents are released only upon payment of the draft, and irrespective of where title to the property vests, control of the same is in the holder of the bill of lading.

Banks freely lend upon such security, holding the documents as collateral to the loan, and by virtue of the nature of the goods, they are a prime security for loans within limits that will allow for fluctuations in market prices.

On a through shipment, the bill of lading passes from hand to hand, following the goods, and carries the consignment from its origin to its destination; but where it is necessary, as for instance in grain movements, to ship first by rail, then by lake steamer, then by rail, and again by ocean steamer, the grain must be transferred several times before it reaches its destination. Obviously the surrender of the bill of lading carries possession of the goods, and to surrender this instrument is to surrender both control and title. Therefore in moving the commodity from rail to steamer, through warehouse, elevator, etc., the bill of lading must be secured in order to make the transfer. Control of the goods is retained by taking a "trust receipt" for the same and surrendering the bill of lading. When the physical transfer is made, the trust receipt is replaced by another bill of lading, which goes forward with the shipment. By this process control is vested in the holder of the bill of lading (lender) and risk avoided.

In some lines, as for instance, grain, the draft is paid when presented, even though the goods are en route. The bill of lading is left as collateral for loans, and as sales are made and goods move forward, the bills already deposited are taken up and others lodged. Thus there is a constant flow of bills of lading in and out of the loan collateral, as transactions are made. Houses in poor credit would of course, have to pay cash on presentation of the bill, and those working on a small margin would have to sell as fast as they buy in order to keep things moving, but the banks will carry the burden, if a sufficient margin is maintained to protect the bank from loss in market fluctuations.

The need for banking affiliations that will advance large sums on credit, based on the raw material will be seen from the fact that some large mills buy cotton and wool in a single purchase or set of purchases in quantities sufficient to last a whole season. And, moreover, a large part of the labor is expended and paid for months before the goods are marketable.

The Textiles

The textile trade divides itself into four branches: (a) Manufacturing establishments; (b) commission houses; (c) jobbers and (d) retailers. These commission houses or factors are of four classes also: (a) The selling agent who has no capital invested in the business,

Marks and Numbers

ABC-100

£1090-

No. 185200

Certificate of Insurance.

EFFECTED BY

WILLCOX, PECK & HUGHES

NEW YORK CITY, N. Y., Nov 16 1914

This is to Certify, That on the 16 day of Nov 1914 there was insured with **The Sea Insurance Company, Limited,** - (¾) and the **British & Foreign Marine Insurance Company, Limited,** - (¼) for account of **WELD & NEVILLE.**

One thousand ninety Pounds Sterling on One hundred BALES COTTON, valued at sum insured, per S/S Baltic and or other steamer or steamers, at and from New York and connecting lines to and thence to Liverpool

It is hereby understood and agreed that, in case of loss, such loss is payable to the order of WELD & NEVILLE on surrender of this Certificate, which represents and takes the place of the Policy, and conveys all the rights of the Original Policy-holder, (for the purpose of collecting any claims for loss or damage), as fully as if the property were covered by a special policy direct to the holder hereof, and is free from any liability for unpaid premiums.

"This certificate is subject to the full terms of the policy in respect of being warranted free of capture, seizure and detention, and the consequences thereof, or of any attempt thereat, and also from all consequences of riots, civil commotions, insurrections, hostilities or warlike operations, whether before or after Declaration of War."

Not Valid unless Countersigned by WELD & NEVILLE.

By Authority of the Above Named Insurance Companies

Countersigned

WILLCOX, PECK & HUGHES.

Charles E. Peck

PRESIDENT

Sample

"With the exception of risks in the United Kingdom, no risk is covered hereunder on shore in any European country which is at war at time of shipment."

ON COTTON—To pay particular average on each ten bales as if separately insured, if amounting to three per cent. unless otherwise agreed, and on shipments to Europe to pay sea damage pickings claims without reference to series or amount. General Average and Salvage Charges payable according to Foreign Statement or per York/Antwerp Rules, if in accordance with the contract of affreightment.

Also to cover the risk of country damage on shipments insured hereunder to Europe, Japan, China, India or Manila, subject to settlement at destination, in accordance with customs and usages of the port of destination, unless otherwise specified in certificate, but no claim for loss of or damage to cotton picked or reconditioned in the United States nor for any cost or expense in respect of such picking or reconditioning shall be recoverable hereunder. Country damage is not covered on cost and freight shipments and local sales, nor on shipments to points in the United States or Canada or Mexico.

LINTERS, Subject to 3% particular average on each bale, but free from claim for country damage.

Cotton pickings or grabbots, free of particular average unless the vessel be stranded, sunk, burned or in collision.

In the event of loss or damage to the cotton insured hereunder, immediate notice to be given to the companies as named hereon.

Including risk of craft, &c., to and from the vessel, each craft or lighter being deemed a separate insurance. Held covered in case of deviation or change of voyage, or transfer to other steamers at a premium to be arranged, provided notice be given on receipt of advices.

This Certificate is issued subject to the terms and conditions of the policy, except so far as herein otherwise provided.

NOTICE—To conform with the Revenue Laws of Great Britain, in order to collect a claim under this Certificate, it must be stamped within Ten Days after its receipt in the United Kingdom.

21821

WELD & NEVILLE,
NEW YORK.

No. 237

INVOICE OF 100 BALES COTTON SHIPPED FROM New York to Liverpool per S/S Baltic

FOR ACCOUNT AND RISK OF Smith & Co Liverpool

ABC	100 B/s Good Mid g.c.s		
	53150 lb		
	Less 6% tare 3189		
	49961 lb	@ 5 d	£ 1040.17.1
	LESS FREIGHT ON 53150 LBS. @ 45¢ p 100 lb		49.16.7
	AMOUNT OF DRAFT @ 60 DAYS SIGHT on Brown Jones & Co Payable London Liverpool for a/c of above named buyers		£ 991.0.6

E. & O. E.

NEW YORK, Nov 16/14

WELD & NEVILLE,

PER

Sample

AGAINST CONTRACT Nov 10-1914

Amount of Invoice £ 991.
plus 10% 99.
Marine Insce £ 1090

but is merely selling agent; (b) the finance house, which does not sell, but lets out space in its building, makes advances on merchandise and discount sales made by the various departments and obtains its profits from charges for such advances, discounts and commissions on sales; (c) the commission house which buys accounts receivable, guarantees sales and makes advances; and (d) the commission houses which own or control the mills, or are owned by the mills, for which they act as selling representatives.

Cotton and Cotton Financing

Through the courtesy of Weld & Neville of New York, members of the New York Cotton Exchange, we reproduce herewith the documents used in financing cotton in the export trade.

The United States produces about two-thirds of the cotton supply of the world, estimated to be about 24,000,000 bales yearly, the standard bale being 500 pounds. This is produced in a growing season of about 160 days from planting to harvest, and is the one crop that requires constant care during the whole period of production, and therefore necessitates a large expenditure in labor. The exports of raw cotton during the year 1912-13 amounted to $551,962,000, and cotton therefore constitutes one of the principal items in our international exchanges. The average price in the United States in 1913 ranged from 10¾ cents to 13.40 cents, and the average farm price in June 1913 was 11.5 cents, showing that the farmer received the major part of the value, only a small fraction being consumed in marketing the product. Liverpool is the great cotton market of the world, and Manchester the center of cotton yarn and cloth.

Old System of Financing Cotton

The old method of financing cotton, particularly up to the point of starting on its way to market was the crop lien system, which still obtains to a large extent. Under this system the merchants of the South became bankers to the cotton planters, and supplied the credit facilities necessary to produce the crop. The merchant would furnish the seed, fertilizer, and machinery, and even buy the draft animals necessary to the farm, taking a crop lien on the expected crop. Supplies for the farm hands were furnished during the season, and when the crop matured, it was turned over to the merchant to liquidate the loan, credit being given for the crop at an agreed price.

The evil of this sytem was the excessive interest cost to the farmer. The merchant charged his own prices for produce, and had the farmer absolutely at his mercy. Those not familiar with exact market conditions could be forced to sell their crop below the market, and the crop lien lead to grave abuses. The farmer was bond slave to his merchant, in poor times being a year or two behind in his payments, the crop in expectancy being mortgaged to liquidate the credit utilized to raise the crop matured.

Present Methods of Financing Cotton

From the plantation the cotton goes to the gin, where the seed is removed and the cotton is compressed into bales 28x56x42 inches, weighing approximately 500 pounds, the unit of cotton as a movable commodity, the pound being the unit of price quotations. The bale weight includes about 20 pounds of steel straps and bagging. From the local gin it goes to one of the larger concentrating points, where it is graded and again compressed to 28x56x18 inches and is then ready for the mill or for export.

Considerable cotton is sent to cotton factors on consignment, who store the same awaiting marketing, advancing up to about 70% of its value. When the cotton is sold, these advances are repaid, plus the carrying charges, which include interest, insurance and storage costs.

Although the cotton thus stored does not belong to pledgfors, it is accepted by banks as collateral for advances, and such loans are constantly made and well regarded by banking institutions.

A large part of the cotton is sold through brokers and middlemen, to the mills direct or on export orders. This cotton goes from the local compress to the railroads, where bills of lading are issued, drafts attached and placed in bank for collection and credit. Where the cotton is moving from a local buyer to a large operator, the local bill is surrendered upon receipt by consignee, and compress receipt issued, which becomes the bank's security for advances made upon the cotton consigned by the local buyer.

It is said to be the custom in many instances, at the opening of business, for the bank to deliver to the cotton men wallets containing all the collateral of the firm, which is kept by the cotton dealer until the close of the day.

In the meantime, the bank has no tangible evidence of its security. Substitutions are made as the occasion requires, and the wallet is returned at night. The standing of the cotton men is such that this is considered a safe practice.

Cotton for Export

Cotton for export is taken from the compress and delivered to the railroad which issues through bills of lading thereon, which carry the goods to the seaport and into the steamer. Drafts are drawn on the buyer, attached to the bill of lading, with insurance and other papers, and given to the bank for collection and credit. These are sold in the foreign exchange market, such bills forming one of the principal items of foreign exchange.

When the sale is made, the terms are agreed upon between the buyer and seller. Most of the cotton is shipped on bankers' credits, which means that the seller is advised to draw for the amount upon a designated bank, and for how long a time. This in substance is a guaranty that the bank named will accept the bill upon presentation. Documents are delivered either upon acceptance (which is the most common method) or upon payment.

European buyers of cotton who have representatives in the South purchase and ship cotton to their principals without the intervention of banks. Such drafts are not of course of the same strength as those drawn upon well-known banks.

While the custom of financing the farmer through cotton factors and merchants still obtains to some extent in some places, and to a noticeable extent in others, the growth of banking facilities in the South is gradually changing the credit operations to a cheaper and more scientific basis, the banks furnishing the credit needed.

The case is well summed up by a New Orleans banker who says:

"The business has shown a tendency of late years to be confined largely to the country merchants and country banks, who advance direct to the small farmers, taking such security as they find acceptable which the farmer has to offer. Where the country merchants advance to the farmers, generally in the shape of supplies, they take the notes of the latter and the country bankers rediscount for them.

"Of late years, the cotton is all compressed in the country, and the foreign buyers have preferred to deal with the sellers in the interior towns, thus making of the ports mere platforms where the cotton is discharged from the cars and loaded on the ships; the so-called Rail Road through Bill of Lading covers the shipment from start in the United States to the finish abroad.

"If the sale is made by an exporter in one of the ocean or gulf ports, he usually furnishes an ocean bill of lading, which has the advantage that the steamer is named therein, so that the consignee knows exactly when his cotton ought to arrive."

Wool and Wool Paper

The wool industry, in the raw material and finished products, constitutes one of the most important of all our industries, the wool production of the United States being over 318,000,000 pounds, with importations of over 135,000,000 pounds. Fifty million sheep produce the crop, Montana leading with 33,000,000 pounds from the backs of five million animals.

The manufacture of wool and worsted goods employs over $506,000,000 capital in 1,124 establishments; uses over $322,400,000 of raw material yearly; adds $185,000,000 to the value of the raw material by manufacturing, and employs 202,000 persons.

The raw material does not change hands many times from producer to consumer, the bulk of the wool used in the textiles being scoured (cleaned) at the mill. But the finished product, being a necessity of life finds its way into thousands of distributing channels before it reaches the final consumer, the wearer. The financial operations likewise become complex as the channels of distribution become numerous. The movement of wool is: Ranch (most generally) to Boston; Boston to mill, mill to cloth; cloth to jobber or commission merchant; jobber to retailer or clothing manufacturer; to wearer.

Wool is sometimes bought on the sheep's back, the buyers going out early in the year and bidding on the contemplated "clip." Shearing in Montana and Wyoming begins about April 1st and is finished by July 1st. Some growers are large enough to deal directly with the large buyers, but small producers sell to local buyers who in turn sell to the wholesalers. After clipping, the wool is assembled in warehouses for inspection of the buyers.

Boston the Wool Center

Boston is the center of the wool industry in this country and ranks next to London as the wool center of the world. Seventy per

cent. of all the wool raised in this country and imported passes through Boston, one wool warehouse having cost over three and one-half millions, and holds 120,000,000 pounds of raw wool—over one-third the entire clip for the country. The financing as well as the buying therefore centers in that city. And since the buying is all done in a few months, the bank accommodation required is enormous.

Risk in Buying Wool

The chief risk in buying the raw wool, and the highest skill involved in the business, strange as it may seem, lies in determining how much dirt and grease the wool contains; that is, how much pure wool there is in a pound of fleece. Raw wool is bought on the "clean and scoured" basis, and the buyer must therefore calculate with a nicety how much the shrinkage will be. An error of 1% on a million pounds means $5,000, and a mistake of 5% means $25,000.

The raw fleece is so matted with oil and dirt that it will hold together like a sheepskin, and in buying from the local dealer, several fleeces from different parts of the lot are examined and the shrinkage estimated, quality, fineness, strength, etc., determined; and bids made accordingly.

The enormous waste in handling wool can be appreciated when it is remembered that 60% is dirt and grease, which must be packed, shipped and freight paid thereon. In 350,000,000 pounds, this is a very large item. Some of the wool is graded in the West and holds it grade, while most wool is graded in Boston by experts; but the scouring is always done at the mill.

The small producer is of course paid in cash by the local buyer, the banks furnishing the needed accommodation; but in the case of large producers, it goes direct to Boston, the West in fact having inadequate storing facilities for any great quantity, so that it does not remain long in the buyers' hands, moving on bill of lading and draft to Boston, where it is placed in warehouse, certificates issued against it, which are lodged as collateral.

Wool Credits

Some of the large buyers are strong enough to borrow on single name paper, and inasmuch as the raw material is bought in about three months, and from six to nine months elapse before realizing upon it, the place wool holds in the financial operations of banks will at once become apparent. The wool is sold to the mills on 60 days credit, 1% discount, 10 days.

The financial operations of the mills will be found under the subject of "Factors" who are largely responsible for the financing of the mills. Some of the mills sell their single name paper, but receivables are not an element in their financial scheme.

After manufacturing into cloth it is sold to the trade through factors or commission merchants, who not only act as selling agents, but in a sense are bankers to the mills also.

Dating Invoices Ahead

Inasmuch as all goods are seasonal, manufacturing must be done long in advance of the actual consumption, and long credit is therefore essential. One of the largest of the textile manufacturers, operating 34 mills, employing 30,000 hands and manufacturing 50,000,000 yards of cloth a year sells on the following terms: Goods for fall trade are sold in the spring and are delivered in August, September and October, and are dated as of June 1st, on the following discounts: 10/10; 8½/30; 8/60; 7/4 (months). Goods for the spring trade are dated as of December 1st. Some houses offer more liberal discounts, such as 10% discount within 30 days from end of month of sale. Others date as of June 30 and December 31; but the dating ahead of the invoice will be clear from the above.

From the factor or selling agent the goods go to the clothing manufacturers who turn the cloth into garments. Garments sold for fall trade are dated June 1, discounts: 7/10; 6/30; 5/60. This is the rule with all large and reliable clothing manufacturers.

The "Factor"

In financing manufacturing concerns, particularly in the line of textiles, there has arisen a combination of selling agent and banker commonly called the "factor," whose function is a double one—that of selling the output and financing the operations. The importance of these houses may be seen from the fact that the gross turnover of one of the largest in New York is upwards of a million a week.

A great many mill owners and managers do not have the necessary capital to finance their business and have to borrow money with which to pay for their raw material and hold large stocks of completed goods on hand. These mill men go to firms who make a business of loaning money and borrow it, after an investigation has been made as to the standing of the mill owners. Sometimes the factors, not only make loans but act as indorsers on the paper of the mill men. They

DOCUMENTS FOR PAYMENT.

NYE & JENKS GRAIN CO.

Exchange for £1793-15-0 New York, Oct. 27th, 1914

Seven days after sight of this FIRST of Exchange (Second unpaid) pay to the Order of Ourselves Seventeen hundred ninety-three and 15/0 pounds sterling

Value received and charge the same to account of

To Messrs. B.L. Smith, & Co.
London

NYE & JENKS GRAIN CO.

ASS'T CASHIER

No. 5998

Specimen Copy

Specimen

DOCUMENTS FOR PAYMENT.

NYE & JENKS GRAIN CO.

Exchange for £1793-15-0 New York, Oct. 27th, 1914.

Seven days after sight of this SECOND of Exchange (First unpaid) pay to the Order of Ourselves Seventeen hundred ninety-three and 15/0 pounds sterling

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To Messrs. B.L. Smith & Co.
London.

NYE & JENKS GRAIN CO.

ASS'T CASHIER.

No. 5998

Specimen Copy

Specimen

Atlantic Transport Line

NEW YORK TO LONDON

AGENTS:

THE ATLANTIC TRANSPORT COMPANY

38 Leadenhall Street, London — Whitehall Building, Battery Place, New York

SHIPPER'S MARKS

"Tilbury Docks excluded but subject to the London Corn Trade Association's Agreement dated April 20, 1905, the provisions whereof are intended to be incorporated herewith for the benefit of the Shipowners and Consignees."

8000 Bushels of Wheat

Stowed in Hold #6.

Set #1.

Specimen Copy

.......Barrels at........per Barrel, £

.......Bushels at........per ....lbs. £

.......Ft. ....in. at........per cu. ft. £

TONS | CWT. ....at........per 2240 lbs. £

5 per cent. Primage

Charges

Total, £

Attention of Shippers is called to Sec. 235 of the Criminal Code of the United States (Act of Congress March 4th, 1909) [illegible]

THE ATLANTIC TRANSPORT COMPANY

Received, in apparent good order and condition by the ATLANTIC TRANSPORT LINE from NYE & JENKS GRAIN CO. on board ~~to be transported by~~ the Steamship MINNEWASKA to sail from the Port of NEW YORK and bound for LONDON with liberty to call at any port or ports in or out of the customary route, ~~or failing shipment by said steamer in and upon a following steamer~~

(8000) Eight thousand Bushels of Wheat

being marked and numbered as per margin, shipper's weight (quality, quantity, gauge, contents, weight and value, unknown), and to be delivered in like good order and condition at the port of LONDON, or so near thereto as she may safely get, unto Shippers Order or to his or their assigns, he or they paying charges as per margin, also freight and primage, immediately on discharge of the goods without any allowance of credit or discount, at the rate of 3¾d. Three & three quarter pence sterling per 60 lbs delivered weight ~~gross intaken weight or measurement or gross~~ weight or measurement delivered at steamer's option. One pound Sterling to be considered equal to $4.80 United States gold currency, except that when ocean freight is prepaid, when exchange shall be figured at current sight rates. Any freight not paid within seven days from final discharge of the steamer is to bear interest at the rate of five (5) per cent. per annum.

IT IS MUTUALLY AGREED that the steamer shall have liberty to sail with or without pilots; that the carrier shall have liberty to convey goods in craft and/or lighters to and from the steamer at the risk of the owners of the goods, and, in case the steamer shall put into a port of refuge, or be prevented from any cause from proceeding in the ordinary course of her voyage, to tranship the goods to their destination by any other steamer; that the carrier shall not be liable for loss or damage occasioned by perils of the sea or other waters, by fire from any cause or wheresoever occurring, by barratry of the master or crew, by enemies, pirates or robbers, by arrest or restraint of princes, rulers or people, riots, strikes, or stoppage of labor; by explosion, bursting of boilers, breakage of shafts, or any latent defect in hull, machinery or appurtenances, or unseaworthiness of the steamer, whether existing at time of shipment or at the beginning of the voyage; provided the owners have exercised due diligence to make the steamer seaworthy; by heating, frost, decay, putrefaction, rust, sweat, change of character, drainage, leakage, breakage, vermin, or by explosion of any of the goods, whether shipped with or without disclosure of their nature, or any loss or damage arising from the nature of the goods or the insufficiency of packages nor for inland damage; nor for the obliteration, errors, insufficiency or [illegible]

[illegible]

(B). Grain for overside delivery [illegible] sufficient consignee's craft, with responsible persons in charge, to receive as fast as steamer can discharge overside into lighters during dock working hours, the Master or Agent may land or discharge into lighters at the risk and expense of the consignee. The steamer-owners may land or discharge continuously day and/or night, any grain landed or discharged for steamer's convenience during usual dock hours, consignee's craft being duly in attendance, and any grain that may be landed or discharged before or after usual dock hours (whether craft are then in attendance or not) is to be given up free to consignee's craft applying for same within 72 hours from its landing or discharge, otherwise it will be subject to the usual dock charges. An extra freight of 7d. per ton shall be paid to the steamer-owners on each consignment of grain, whether any portion be landed or not. The grain to be weighed at time of discharge, either on deck, quay or craft, at steamer's option. Working out charges (including weighing) for grain in bulk and/or steamer's bags to be paid by the consignee with the freight to the steamer's agents or to the dock company, if so directed by the steamer's agents, in exchange for release, at the rate of 1/1 per ton on wheat, maize and heavy grain, 1/2 per ton on barley, and 1/10 per ton on oats. Neither party shall be liable for any interference with the performance of the contract herein contained, which is caused by strikes, or lockout of seamen, lightermen, or shore laborers, whether partial or otherwise, nor for any consequences of such strikes or lockouts, but in such case the steamer-owners shall be entitled to land or put into craft at the risk and expense of consignee. In case the grain shipped under this Bill of Lading forms part of a larger bulk, each Bill of Lading to bear its proportion of shortage and damage, if any.

(C). HAY, FLOUR, ACETONE, ASPHALT, JUTE, HEMP, LAMP BLACK, ROSIN, VARNISH, ILLUMINATING AND OIL of all kinds, whether animal, vegetable or mineral, and the liquid products of them, or any of them. Consignees to have craft in attendance immediately on steamer's docking to take delivery from steamer or quay at steamer-owner's option, working continuously day and/or night, paying in any case 1/3 per ton weight, or otherwise the goods will be put into Captain's entry craft at consignee's risk and expense.

These London clauses "A," "B" and "C" are to form part of this Bill of Lading, and any words at variance with them are hereby canceled.

Craft which are in attendance for delivery under above clauses and stipulations shall wait free of demurrage their regular turn to receive goods or grain as required by steamer-owners, either from steamer or quay or Captain's entry craft.

The steamer-owners shall have the same lien, rights and remedies on goods or grain, referred to in the above clauses or under any other clauses of the Bills of Lading as they have by law in respect of freight.

~~NOTIFICATION CLAUSE.—ALSO, no claims shall, under any circumstances whatever, attach to the steamer or her owners for failure to notify consignee of arrival of goods.~~

In case the regular steamship service to final port of delivery should be suspended or interrupted, in consequence of ice or other causes, the carrier, at the option of the owner or consignee of the goods or the holder of the Bill of Lading, may forward the goods to the nearest available port, this to be considered a final delivery, or to store them at the port of London at the risk and expense of the goods until regular service to final port of destination is opened again.

The exceptions and conditions enumerated in this Bill of Lading shall apply not only during the loading and voyage, but during the discharge and until the goods and grain are actually delivered to the consignee and the persons handling the goods and grain in the steamer, on the quays or into lighters, or till delivery to consignee, or to the dock company, shall be deemed the servants of the steamer-owners.

AND FINALLY, in accepting this Bill of Lading, the shipper, owner and consignee of the goods and the holder of the Bill of Lading, agree to be bound by all of its stipulations, exceptions and conditions, whether written or printed, as fully as if they were all signed by such shipper, owner, consignee or holder.

In Witness Whereof, the master or agent of the said steamer hath affirmed to ~~three~~ Bills of Lading, all of this tenor and date, one of which being accomplished, the others to stand void.

Dated in NEW YORK, October 26th 1914.

The Atlantic Transport Company, AGENTS

Per SPECIMEN

also act as selling agents and for this work they collect a commission. All of these transactions are usually defined in a contract, and the factor gets a large or small per cent. and commission in accordance with the bargain he is able to drive with the mill owner.

These factors also act as financial sponsors for the mill men, "accept" their paper and make advances on consignments. Apparently there are a great many irresponsible companies in the textile business who send their salesmen out amongst the trade with promises of deliveries of large stocks of goods at low prices at some time in the future. The concerns which are ordering these goods want to be sure that the deliveries will be made as promised, and if they are not sure of the standing of the mill man they ask him who his factor is. If the factor is well known, that is enough for the purchaser; for he feels sure that a responsible firm of factors would not act for an irresponsible firm of mill men. Moreover, some factors agree to make good to any firm losses it may suffer through the failure of a factor's client to live up to his contract. Therefore, the name of a factor is valuable to any mill man who wishes to make contracts for manufacturing or for sales for future delivery.

The Factor's Operations

There are several ways in which the factor operates. He may contract with the mill to sell its entire output. Goods are sent to his place and displayed, a portion of the building being set aside for the use of that particular mill, with a man in charge. The factor will make advances on the goods received, as for instance upon receipt of $25,000 worth of goods, he will advance say $15,000 at once, which provides the mill with its current funds. Or, he may allow the mill to draw upon him, not for the price of goods shipped, but as a finance bill in foreign exchange. This will be accepted and sold in the market. It is really accommodation acceptance, but lends the credit of the acceptor, which is well known to that of the mill which might be unknown.

Another department of the factor's work consists of financing mills for which he may not be selling agent. Thus there are firms in New York which will discount accounts receivable. The operation is as follows: When a bill of goods is sold, the invoice is stamped "This bill assigned to A. B. and Co., to whom payment should be made." Upon so assigning the bill, the factor-banker will advance usually up to 80% of the amount, for which an interest charge is made. If the seller wishes the collection of the bill guaranteed, he will pay an additional sum as insurance premium for the surety of his money. The process simply means, that the factor-banker buys the account, taking the risk of collection, for which he operates a well organized credit department.

If the full amount of the bill is at once desired, a further charge is made to cover the risk. It is a highly profitable line of credit operation. In some cases 6% is charged upon the advance made, for the time to run and an extra charge for the balance; thus in case 80% was advanced at 6% on a hundred dollars, the charge would be $4.80 for a year. If the bill is to be guaranteed, a further charge of 6% flat on the balance is made, or $1.20.

The factor secures money to himself, first by the strength of his own house, being able to borrow of his own bank on his note of hand, without pledge of security. Or he may sell the accepted paper of the mill and thus secure funds; or issue single name paper. Some of these factors never appear to borrow, having private capital sufficient for their needs. One of the largest factors in New York borrows on both their single name paper and acceptances, and another on its single name paper.

Bills of Exchange in a Shipment of Grain

We are indebted to the Nye & Jenks Grain Company of New York, members of the New York Produce Exchange, for the accompanying documents which are used in financing grain in the export trade.

In the movement of grain, bank credit and credit instruments play an important part, but individual credit does not appear until the finished products move from the wholesaler to the retailer, and from him to the ultimate consumer.

All transactions in grain are carried on by means of bills of exchange, payment for which must be made before the goods are delivered to the buyer; but inasmuch as the raw material changes hands many times before it reaches its final destination, physical possession of the goods is not desired, but merely title thereto, or control thereof, which is evidenced by either a bill of lading, rail, lake, or ocean, an elevator receipt or trust receipt.

In order to obtain possession of the bill of lading, and therefore constructive possession of the goods, the bill must be paid upon presentation, which is often, if not generally, before the arrival of the goods. Therefore the buyer must either have abundant capital

169192

$1850. Pounds Sterling

NEW YORK BRANCH.

No.

British and Foreign Marine Insurance Company, Limited.

GEO. B. HEYWORTH, ESQ., CHAIRMAN. HERBERT W. HIND, ESQ., VICE-CHAIRMAN.

PRINCIPAL OFFICES AND BRANCH OFFICES:

LIVERPOOL, 5 Castle St. {John Davies, Esq., Underwriter. William Gow, Esq., Secretary. LONDON, 1 Old Broad Street, {T. J. Storey, Esq., Underwriter. F. Lloyd, Esq., Secretary. NEW YORK, Cotton Exchange Building, {W. L. H. Simpson, Underwriter. John E. Hoffman, Secretary.

SYDNEY, 56 Pitt St.: Henry Cornwell, Manager. MELBOURNE, 57 Queen St.: Charles Rennie, Manager.

CERTIFICATE OF INSURANCE.

MARKS AND NUMBERS.

New York, 26 Oct 1914

This is to Certify, That on the 26 day of Oct 1914, this Company insured under Policy No. — made for Nye & Jenks Grain Co. Eighteen hundred & fifty Pounds Sterling ~~Dollars,~~ on 8000 Bus Wheat as per B/L Valued at sum insured, Shipped on board of the s/s Minnewaska at and from New York to London direct or otherwise, and it is hereby understood and agreed, that in case of loss, such loss is payable to the order of Nye & Jenks Grain Co. on surrender of this Certificate.

DUPLICATE

COPY

This Certificate represents and takes the place of the Policy, and conveys all the rights of the Original Policy-holder (for the purpose of collecting any loss or claim), as fully as if the property were covered by a Special Policy direct to the holder of this Certificate, and free from any liability for unpaid premium.

Claims to be adjusted according to the usages of LLOYDS, but subject to the conditions of the Policy.

Shipments to London are covered, including risk of special lighterage and transportation via quay or silo.

This Certificate is issued in Original and Duplicate, one of which being accomplished the other to stand null and void.

To conform with the Revenue Laws of Great Britain, in order to collect Claims, this Certificate must be stamped within TEN DAYS after receipt in the United Kingdom.

This Certificate shall not be vitiated by any unintentional error in description of voyage or interest, or by deviation provided the same be communicated to Assurers as soon as known to the assured, and an additional premium paid if required.

It is hereby agreed that any loss or claim under this Certificate, shall be paid at the current rate of exchange at the Offices of the Company, in New York, Liverpool, London, or at any of the agencies as per back of this Certificate, provided it is so stipulated on the face of this Certificate that the claims are to be paid at such agency.

The assured are hereby held covered in case of transfer of part or whole of a shipment to steamer or steamers other than those named in this Certificate; it being understood that particulars of any such transfers shall be promptly sent to the Company by the assured whenever the same shall come to their knowledge.

Including risks of craft to and from the vessel, it being especially agreed that in the case of shipments to Liverpool this insurance includes craft risk from the vessel when discharging in the river or in any dock on either side of the river to grain warehouses, in the case of shipments to Hamburg craft risk to Altona is included when incurred and in the case of shipments to Bremen craft risk from Bremenhaven to Bremen is included when incurred.

Warranted free from particular average unless the vessel and/or craft be stranded, sunk, burnt, or in collision with another ship or vessel, or unless loss or damage to the interest hereby insured be reasonably supposed to be owing to fire or contact (other than collision with another ship or vessel) of the craft and/or vessel with any substance, ice included, other than water or owing to discharge of cargo at a port of distress. But to pay landing, warehousing, forwarding and special charges, if incurred, also partial loss arising from transhipment and to pay for any portion of cargo condemned at a port of distress owing to perils insured against. Including risk of craft, raft and/or lighter to and from the vessel, also all liberties as per contract of affreightment. Each craft, raft or lighter to be deemed a separate insurance. Assured not to be prejudiced by any agreement made exempting lightermen from liability. It is also hereby specially agreed that the presence of the negligence clause and/or latent defect clause in the Bills of Lading and/or Charter Party is not to prejudice this insurance.

The seaworthiness of steamers or vessels as between the assured and assurers is hereby admitted.

In the event of any additional insurance being placed by the assured for the time being, as the cargo herein insured the value stated in this policy shall, in the event of loss or claim be deemed to be increased to the total amount insured at the time of loss or accident.

The assured is held covered against "damage or loss resulting from faults or errors in navigation or in the management of said vessel," for which "the vessel, her owner or owners, agent or charterers" is, or are, relieved of responsibility under Section 3 of the Act of Congress of the United States, approved 13th February, 1893, but nothing in this clause contained shall limit or affect any rights which the company may have by subrogation, or otherwise, against the owners of the said vessel.

It is hereby understood and agreed, that in case of Loss or Damage happening to the property insured under this Certificate, the same shall be reported to the Office of the Company, either in Liverpool or London, as soon as known, or if the port of destination be, or the damaged goods arrive at other ports, it is agreed that any loss or damage shall be promptly reported for attention to the nearest located agents of the Company. (See list of all such agents printed on the back of this Certificate.)

Warranted by the assured free from loss or expense arising from capture, seizure restraint, detention or destruction, or the consequences of any attempt thereat, whether lawful or unlawful; and whether by the act of any belligerent nations, or by governments of seceding or revolting States, or by unauthorized or lawless persons therein, or otherwise; and whether occurring in a port of distress or otherwise. Also warranted not to abandon in case of blockade, and free from any expense in consequence thereof, but in the event of blockade to be at liberty to proceed to an open port and there end the voyage. It is also agreed that the property be warranted by the assured free from any charge, damage or loss, which may arise in consequence of a seizure or detention for or on account of any illicit or prohibited trade, or any trade in articles contraband of war, or the violation of any port regulation.

Not valid unless countersigned by JOHN M. FREY, Insurance Agent, Produce Exchange, New York.

Attorney.

Invoice No. 7197

SHIPPED BY NYE & JENKS GRAIN CO., NEW YORK.

On Board S. S. Minnewaska *from* New York to London

for account and risk of Messrs B. L. Smith & Co. London

B/L dated Oct. 26/1914

against our sale Sept 24/1914

Through M

8000 Bushels. New #2 Hard Winter Wheat		
1000 Quarters @ 38/7½ per 480lbs		£ 1931-5-0
Less frt @ 3¼d. + 5% per bushels £ 131-5-0		
" 4d. per ton 6-5-0		£ 137-10-0
		£ 1.793-15-0

SPECIMEN

Insured in BRITISH & FOREIGN MARINE INS. CO. for £1850/-

Documents attached to draft as follows:

1 Set *Bills of Lading* 8000 Bus in Hold #6

1 *Insurance Certificate*

1 *Inspection Certificate*

E. & O. E.

New York, Oct 27th 1914

NYE & JENKS GRAIN CO.

No. 8000 Bushels and Pounds

Produce Exchange Grain Inspection.

New York, October 26th 1914

I hereby Certify, that I have Inspected Eight Thousand Bushels and Pounds of ... Put on board the ...

according to the present standard of the NEW YORK PRODUCE EXCHANGE.

Stowed in Hold # 6

For acct of ...

INSPECTOR-IN-CHIEF

of his own or ample banking facilities. Being staple articles, in constant and world wide demand, convertible into money at little expense or delay, such loans are of the very best, and are readily made by the banks, the only peril being in the changing price of the goods, and danger of deterioration.

Banking accommodations are therefore to be had by pledging these bills of lading or elevator receipts with the bank as security for advances. As a matter of fact, neither the bills nor the goods are actually pledged with the bank, but possession of the bill being necessary in order to get possession of or to move the goods, the holding of the bill of lading is in itself perfect security. Inasmuch as large grain merchants are receiving consignments of grain constantly, and paying the drafts attached, there is a constant stream of bills passing through their hands, which may be placed in the bank to replace others taken out for the purpose of moving shipments.

There are a few large elevator concerns in the West that buy grain and secure funds for cash payment by selling their single name paper in the open market. While the wheat is, in the last analysis, the security, it is the credit of the borrower that is the real element. These same concerns also borrow on warehouse receipt for the grain, and on account of the security, obtain cheap rates in the large cities of the West; but as between the buyer and seller, grain as a rule moves on a cash basis.

The various steps taken in moving a shipment of wheat from the producer in Dakota to the consumer in Europe, and the financial operations connected therewith will be best understood by tracing in detail such a shipment. It will be observed that the draft and bill of lading become separated at various points, subsequently coming together, and again separating, depending upon whether the documents are used as collateral.

Presuming the farmer is in need of short time credit for his current operations, as distinguished from long time credit for the purpose of buying or improving land, it will arise from a need of funds to plant and harvest the crop. He may buy his seed of the local merchant on open account, or give notes for it, which are discounted at the local bank. In buying machinery, he gives his notes to the agricultural machinery companies, and these notes constitute as important a form of two name paper, as arises in the market. In paying off his harvest hands, cash must be had, which is supplied by the local bank, and if on credit, against his note of hand.

The crop being harvested now begins its journey to the place of ultimate consumption. Upon receipt of the grain, the local elevator will roughly grade the wheat, issuing its receipts, which are paid for in cash at the office.

Assuming the grain to pass through several hands before reaching its destination, it will be shipped from the local elevator to the lake port, where it will be officially graded, which grading is accepted in all markets. A draft is drawn on the lake port dealer, for instance at Duluth, with bill of lading attached, and sent to a bank at Duluth. The draft is presented to the drawee at Duluth and paid. If the Duluth firm is borrowing on the shipment, the bill of lading will be security to the bank for the advance. If the grain is to go forward, it must pass through an elevator, and therefore the bill of lading must be surrendered before this can be done. In order that the property

may not be out of the bank's control, a trust receipt is taken, which vests control in the bank while the transfer is being made. If the grain is to remain in storage a warehouse receipt is issued, which is deposited in the bank as collateral. But assuming that the grain is to move to the seaboard, the trust receipt is taken up when the grain is on the lake carrier, and lake bill is issued.

When the grain leaves the elevator in Duluth for Buffalo, via the lakes, the Duluth firm will draw on Buffalo, attach the inspection certificate, the bill of lading, and insurance certificate to the draft and forward to a Buffalo bank. The draft is paid, bill of lading again surrendered for trust receipt, which in turn is replaced by a rail bill for New York.

When on board the car for New York, the trust receipt is taken up and draft, rail bill and other documents forwarded to New York, and paid by drawee.

From the railroad car the grain goes into elevator, the bank holding a trust receipt while the grain is being transferred. As soon as the grain is on board the ocean liner, certificate of loading is issued, an ocean bill of lading drawn, draft on the European buyer or his bank attached, insurance effected, and the bill with the documents attached becomes foreign exchange and is sold in the foreign exchange market. Formerly drafts against grain were at 60 days sight on the buyer, documents to be delivered against payment of the draft, under rebate for the unexpired time, as explained on page 31 under the heading of meat bills. The same rule applies also to flour bills. Since 1913 it has become the practice in the grain export trade from the Northern parts of the United States and from Canada to draw on the buyer at seven days after sight documents deliverable against payment. Shipments from southern ports are usually against 30 day sight drafts.

All drafts on United Kingdom are subject to three days grace; drafts made for longer than three days after sight pay the British revenue stamps as follows:

Not exceeding £ 5,		1 d
Exceeding £ 5, but not exceeding £	10	2 d
" " 10, " " " "	25	3 d
" " 25, " " " "	50	6 d
" " 50, " " " "	75	9 d
" " 75, " " " "	100	1 shilling

and for every further £100 or fractional part of £100 an additional 1 shilling is required.

Flour in the Export Trade

We are indebted to the Pillsbury Flour Mills Company of Minneapolis for the accompanying documents which as are used for financing exports of flour. Also an account of the methods of handling these intruments in the foreign trade, from the booking of the order to the payment of the drafts.

"Our foreign customers who book flour for future delivery and make specified shipping periods, differ somewhat as to the terms of settlement. For instance, in Holland where the guilder is used they require goods shipped and documents consisting of bill of lading and insurance certificate attached to draft drawn at three days sight. The drawee in this case has the privilege of accepting this draft and obtaining the documents attached upon this acceptance, while in England where drafts are generally drawn in pounds Sterling for the English trade drafts are drawn at sixty days sight and payment of bill is required before the documents are surrendered. In the two above cases we generally draw on customers direct, our correspondent in this country having the privilege of forwarding the documents through whatever bank they choose.

"In the case of Scandinavian countries who

PILLSBURY FLOUR MILLS COMPANY
MINNEAPOLIS, MINN.
CABLE ADDRESS: PILLSBURY, MINNEAPOLIS

Minneapolis, Minn. JUL 2 1914 191

Manager

Credit Lyonnais,
LONDON,
ENGLAND.

Dear Sir:

We have drawn on you at NINETY days after sight for £580, 15-6

for account of Crawford & Law,
Glasgow,
Scotland.

which please honor.

Aforesaid draft made against shipment of Flour as follows:

B/L 647 1000 Sacks PILLSBURY'S BEST. S. S. Line Hamburg American

Very truly yours,

PILLSBURY FLOUR MILLS COMPANY

FOR USE VIA CANADIAN PORTS

Export Bill of Lading No.... P 36 Lot No. 52677 Contract No. 232 Bunting 871

National Despatch-Great Eastern Line

IN CONNECTION WITH OTHER CARRIERS ON THE ROUTE

COMMERCIAL AGENTS [illegible]

RECEIVED at Minneapolis, Minn. May 19th, 1914

from Pillsbury Flour Mills Co. the following property in apparent good order, except as noted (contents and condition of contents of packages unknown), marked, numbered, consigned and destined as indicated below:

CONSIGNEE AND DESTINATION	MARKS AND NUMBERS	ARTICLES
Order of		
Pillsbury Flour Mills Co.		
Glasgow, Scot.	PILLSBURYS BEST	FIVE HUNDRED (500 280#) JUTE SACKS FLOUR
PARTY TO BE NOTIFIED		
CRAWFORD & LAW	Car Nor. Pac. 23473	250 sacks
67 HOPE ST.	" " " 46441	250 "
		140000 lbs.
		*Shipper's Weight .... (subject to correction)
		(*U. S. Law requires Agent issuing Bill of Lading to write either "shippers" or "carrier s" before "weight.")

N.P. via Duluth and Pt. Gratiot, Mich.

To be carried to the Port (A) of Montreal, Que. *and thence by* Allen Line *to the Port (B)* Glasgow, Scot. *(or so near thereto as steamer may safely get, with liberty to call at any port or ports in or out of the customary route), and to be there delivered in like good order and condition as above consigned, or to consignee's assigns, or to another carrier on the route to destination if consigned beyond said Port (B), upon payment immediately on discharge of the property, of the freight thereon, at the rate from* Minneapolis, Minn. *to* Glasgow, Scot. inland rate eighteen (18) & 50/00 prepaid *gold currency, per one hundred pounds GROSS WEIGHT, and advance charges* Ocean rate fourteen (14) & 00/00 prepaid *), with all other charges and average, without any allowance of credit or discount; settlement to be made on the basis of 4 shillings 2 pence, 4.25 marks, 5.25 francs, 2.50 Dutch guilders; 3.80 kroner to the dollar, United States gold currency; if in other currency than herein provided for, settlement to be made at the rate of $1.80 to the pound sterling, at the current rate of exchange officially quoted on the day the ocean steamer enters the Custom House at its port of discharge, for which banker's short-sight bills on London can be bought; when ocean freight is prepaid, $4.86 United States gold is equivalent to one pound sterling.*

In consideration of the rate of freight herein named, it is hereby stipulated that the service to be performed hereunder shall be subject to the conditions, whether printed or written, herein contained, and said conditions are hereby agreed to by the shipper and by him accepted for himself and his assigns as just and reasonable.

CONDITIONS

Any alteration, addition, or erasure in this bill of lading which shall be made without the special notation hereon of the agent of the carrier issuing this bill of lading shall be void.

[illegible] Parliament of Canada assented to on the fourth day of May 1910 and entitled "The Water Carriage of Goods Act."

2. ALSO that the carrier shall have a lien on the goods for all freights and charges and also for all fines or damages which the ship or cargo may incur or suffer by reason of the illegal, incorrect or insufficient marking, numbering or addressing of packages or descriptions of their contents.

[illegible]

11. ALSO that this bill of lading, duly endorsed, be given up in exchange for delivery order.

12. ALSO that freight prepaid will not be returned, goods lost or not lost.

13. ALSO that parcels for different consignees collected or made up in single packages addressed to one consignee pay full freight [illegible]

14. ALSO that freight payable on weight is to be paid on gross weight landed from ocean ship unless otherwise [illegible] provided or unless the carrier elect to take the freight on the bill of lading weight.

15. ALSO that in case the whole or any part of the goods specified herein be prevented by any cause from going in [illegible], the carrier is only bound to forward them by succeeding ships [illegible]

IN WITNESS WHEREOF, The Agent signing, on behalf of the said National Despatch - Great Eastern Line, *and of the said Ocean Steamship Company, or Ocean Steamer and her owner, severally and not jointly, hath affirmed to* two *Bills of Lading all of this tenor and date, one of which Bills being accomplished, the others to stand void.*

Dated at Minneapolis Minn. 21st *day of* May 1914 *191*

T. C. Burgess *Agent.*

On behalf of Carriers severally but not jointly.

generally do their banking in London, we draw at ninety days sight on their London correspondent for the consignee's account and in this case we are required to give three days prior notice to the London agency of the customer in question before forwarding the draft and documents. This is to insure ourselves as well as give final notice to the customer that his credit covering this particular shipment has been established with his bank so that the acceptance of the documents will not be delayed, because if the customer has not established credit to meet same the London bank would cable us that the documents have been refused thus entailing considerable charges and cable expense.

"These foreign bills of exchange we negotiate through New York, Chicago, or the local markets, whichever gives us the best rate."

MEAT BILLS

Through the courtesy of Messrs. Armour & Company of Chicago we are permitted to reproduce herewith the documents used in financing their export trade.

Under the heading of "Meat Bills" it is usually customary to classify all such documentary bills as are drawn against shipments of packing-house products to firms and individuals abroad. Such bills are usually drawn for very short terms and in most cases

Documents to be Surrendered only upon payment of this bill

Exchange for

£208-5-0

No. 15828

Minneapolis, Minn. U.S.A. JUL 1 1914

Sixty days after sight of this First of Exchange (Second not issued)

Pay to the order of Ourselves

Two hundred eight Pounds 5/0 Sterling.

Against Bill of Lading No. 281 for 1000 Sacks flour branded PILLSBURY'S BEST. attached hereto

Value received, and charge the same to account of

To William Klein & Sons, London, England.

Pillsbury Flour Mills Company.

President / Treasurer / Cashier.

EXPORT DEPARTMENT PILLSBURY FLOUR MILLS COMPANY

SAMPLE—COPY NOT NEGOTIABLE

The Documents attached to this Bill are to be surrendered to the drawees against their acceptance

Exchange for

5640 25/ Guilders.

No. 670

Minneapolis, Minn. U.S.A. First July 1914.

Three days after sight of this First of Exchange (second not issued)

Pay to the order of Ourselves

Fifty six hundred forty and 25/100 Guilders.

Against Bill of Lading No. 423 for 1250 Sacks Flour branded PILLSBURY'S BEST. attached hereto

Value received, and charge the same to account of

To H. F. OSIECK, Amsterdam, Holland.

Pillsbury Flour Mills Company.

President / Treasurer / Cashier.

EXPORT DEPARTMENT PILLSBURY FLOUR MILLS COMPANY

SAMPLE—COPY NOT NEGOTIABLE

IT IS HEREBY UNDERSTOOD AND AGREED, *that all cases of loss or damage happening to the property insured under this Certificate shall be reported to the Company, or its Agents, as soon as known.*

PROOFS OF LOSS will be authenticated on application at any office scheduled on reverse side of this Certificate. Messrs. WENDT & CO., 2 Lime St. Square, London, are the General Settling Agents of the Company for Europe; to whom reference should be made in case of need.

MARKS AND NOS.

"Pillsburys Best"

B/L #185

Shipments to ports and places in the United Kingdom of Great Britain or Continent of Europe (excluding Mediterranean ports) subject to "All Risks" clause as per policy.

Shipments to all other points subject to F. P. A. E. C. terms unless otherwise endorsed hereon.

On shipments to London—This Company is not liable for damage while in Barges, unless actually caused by sinking, stranding, burning, or collision.

DUPLICATE

No. 33736

Certificate
of the
ST. PAUL FIRE AND MARINE INSURANCE CO.
ST. PAUL, MINNESOTA

The revenue laws of Great Britain require that this certificate be stamped within 10 days after receipt in the United Kingdom, otherwise loss cannot be collected there. Such stamps to be at the expense of the assured.

Minneapolis, Minn., U. S. A. March 11th, 1914

On the eleventh *day of* March *191*4

PILLSBURY FLOUR MILLS CO. *caused to be made by this Company on Open Policy No. 7536, an endorsement for insurance of (* 228 pounds *)*

Two Hundred and twenty-eight pounds sterling

on 400 Sacks of Flour *valued at sum insured, shipped by Rail Road and/or Lake Steamer and/or inland conveyances at and from Minneapolis, Minn., to* New York, N. Y. *and at and thence per Steamer or Steamers to* Copenhagen, Denmark.

This Certificate represents and takes the place of the Policy, and conveys all the rights of the Original Policy-holder (for the purpose of collecting any loss or claims), as fully as if the property were covered by a Special Policy direct to the holder of this Certificate, and free from any liability for unpaid premiums.

Loss, if any, payable in STERLING, *to* Pillsbury Flour Mills Co., *or order, at the office of Kleinwort, Sons & Co., 20 Fenchurch St., E. C. London, (If amounting to over £25) or by Wendt & Co., 2 Lime St. Square, E. C. London, (If amounting to £25 or under), upon the surrender to them of this Certificate, computed at the rate Four 86/100 Dollars, Gold, to the Sovereign or Pound Sterling, and when so paid liability under this insurance is discharged.*

Original and Duplicate issued one of which being accomplished the other to stand null and void.

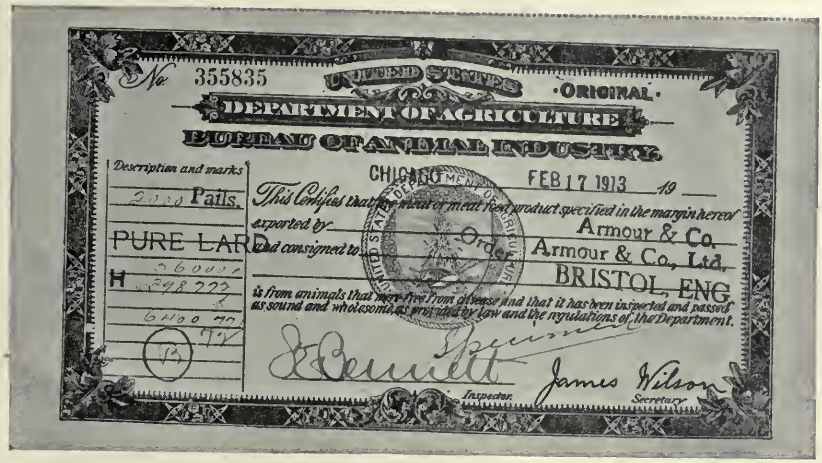
SAMPLE COPY NOT NEGOTIABLE

Not Valid unless countersigned by Pillsbury Flour Mills Co.

Countersigned: Pillsbury Flour Mills Co.

Cashier

President


No. 355835

UNITED STATES

·ORIGINAL·

DEPARTMENT OF AGRICULTURE

BUREAU OF ANIMAL INDUSTRY

Description and marks

Pails.

PURE LARD

CHICAGO FEB 17 1913 19

This Certifies that the meat or meat food product specified in the margin hereof exported by Armour & Co. and consigned to Order Armour & Co. Ltd. BRISTOL, ENG. is from animals that were free from disease and that it has been inspected and passed as sound and wholesome as provided by law and the regulations of the Department.

Specimen

Inspector.

James Wilson

Secretary.

the documents are surrendered against payment only. If drawn for longer periods, they seldom run to maturity, but are retired under rebate of interest for the unexpired time, as it is to the advantage of the consignee to obtain possession of the goods as soon as possible, owing to their more or less perishable nature. On account of this feature "Meat Bills" are considered a very desirable form of remittance and command the very highest rates among banks who deal in exchange. Of course a shipment of meats or other similar product may be covered by a draft on a bank at sixty or ninety days sight, but as the documents attached to such a draft are always delivered to the bank upon its acceptance, such a Bill of Exchange becomes at once a "Bankers Acceptance," and may be rediscounted and circulated in the open discount market without any further reference or relationship to the documents originally attached, or to the shipment which they represented.

Many of the large packers have their own offices and selling agencies abroad and draw Bills of Exchange on them, such as the one reproduced herewith. Such Bills of Exchange are handled exactly the same as if the shipper had drawn on a second party.

The bank that purchases the draft in this country sends it to its correspondent in the city where the payee is located, and when received there it is immediately presented to the drawee for acceptance. When the documents are deliverable only against payment, and the drawee wishes to obtain possession of the goods at once, he notifies the bank and they allow him a rebate of interest for the unexpired term of the draft at a rate, one-half per cent. above the rate of discount allowed on deposits by the leading Joint Stock Banks in London. As the interest allowed on deposits is 1½% below the Bank of England discount rate, the rebate allowed is normally one per cent. below the Bank of England rate, but it must not be overlooked that 4% is the maximum rate of interest allowed, no matter how high the Bank rate rises, hence 4½% is the maximum rebate; this must be remembered when the Bank rate goes above 5½%.

Leather and Leather Paper

The leather industry of the United States aside from the manufacture of shoes, comprises 919 establishments employing 67,100 persons, and capital to the amount of $332,726,900. The materials in the raw state cost $248,278,900 and by the tanning process $79,595,200 is added to the value. The wages average about $39,000,000 a year. The shoe industry is constituted of 1918 establishments, employing 215,900 persons, the wage earners numbering 198,297. The capital employed is $222,324,248, salaries and wages being $117,092,116. The raw materials alone cost $332,738,213 yearly. The products at the last census were valued after manufacturing, at $512,797,642. The leather supply is naturally dependent upon the supply of animals, and the quantity of the latter can be known with considerable exactness any time a census is taken. And with the supply of cattle growing less and the population greater, new fields must be opened up if the cost is to be kept within bounds. Moreover the introduction of the automobile has made increased demands upon the leather supply.

The processes in the leather industry are two, tanning and finishing. In some cases both are done by the same concern, while others do but one. The labor cost is light, the materials according to the last census costing 75.7 of the total value of the products. Corporations control 49 per cent. of the establishments and 76.3 per cent. of the value of the products.

Of the 919 establishments, 78 or 8.5 per cent. manufacture products of $1,000,000 or over, yearly; but such concerns supply 48.2 per cent. of the total value of the pro-

First of Exchange for **ARMOUR AND COMPANY** No. 2604

£1281-2-5 Chicago, Ill. U.S.A. February 17 1914

Three days after sight of this First of Exchange (Second unpaid) Pay to the order of Ourselves

One thousand two hundred eighty one Pounds 2/5 Sterling

Value received and charge the same to account

Messrs Armour & Co. Ltd. Bristol England

p. pro. ARMOUR AND COMPANY

Second of Exchange for **ARMOUR AND COMPANY** No. 2604

£1281-2-5 Chicago, Ill. U.S.A. February 17 1914

Three days after sight of this Second of Exchange (First unpaid) Pay to the order of Ourselves

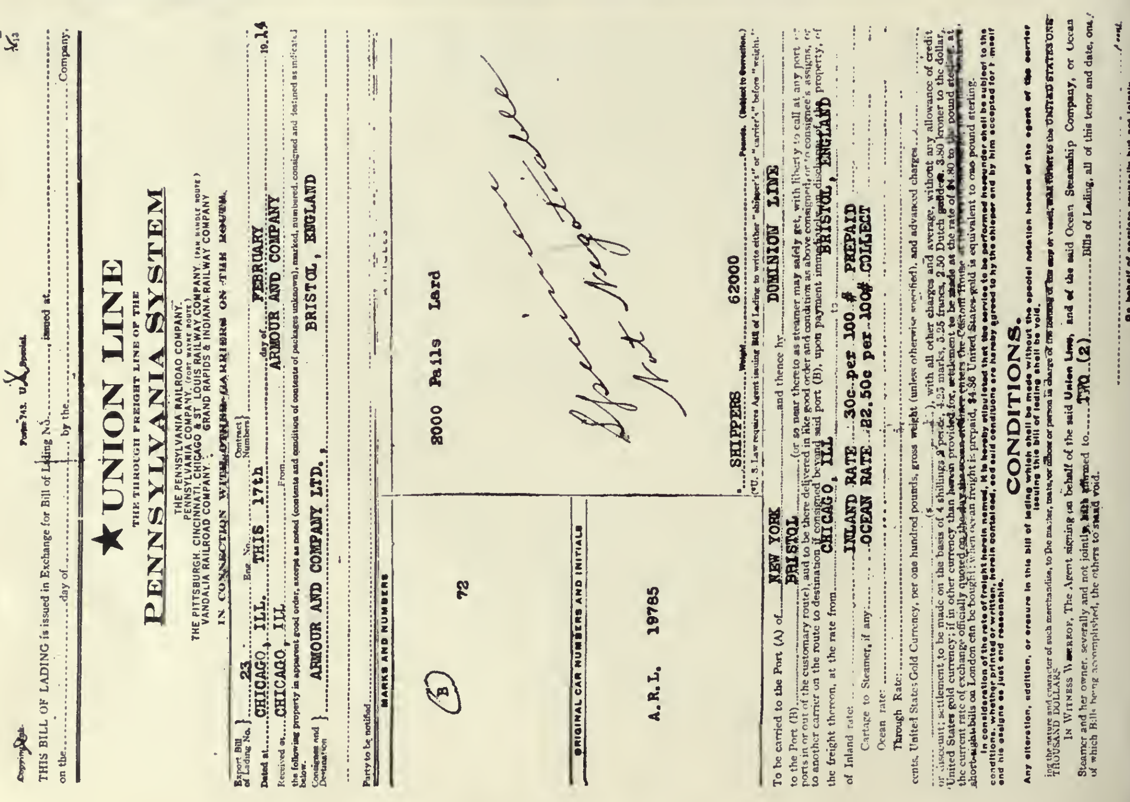
One thousand two hundred eighty one

Value received and charge the same to account

Messrs Armour & Co. Ltd. Bristol England

p. pro. ARMOUR AND COMPANY

Specimen Not Negotiable



Form 743. U. Special.

THIS BILL OF LADING is issued in Exchange for Bill of Lading No. ...., issued at .... on the .... day of .... by the .... Company.

★ UNION LINE

THE THROUGH FREIGHT LINE OF THE

PENNSYLVANIA SYSTEM

THE PENNSYLVANIA RAILROAD COMPANY.
PENNSYLVANIA COMPANY. (FORT WAYNE ROUTE)
THE PITTSBURGH, CINCINNATI, CHICAGO & ST. LOUIS RAILWAY COMPANY. (PAN HANDLE ROUTE)
VANDALIA RAILROAD COMPANY. GRAND RAPIDS & INDIANA RAILWAY COMPANY

IN CONNECTION WITH OTHER CARRIERS ON THE ROUTE.

Export Bill of Lading No. 23 Eng. No. ...... Contract Numbers ......

Dated at CHICAGO, ILL. THIS 17th day of FEBRUARY 1914

Received at CHICAGO, ILL From ARMOUR AND COMPANY

the following property in apparent good order, except as noted (contents and condition of contents of packages unknown), marked, numbered, consigned and destined as indicated below.

Consignee and Destination } ARMOUR AND COMPANY LTD., BRISTOL, ENGLAND

Party to be notified ......

MARKS AND NUMBERS	ARTICLES
(B) 72	2000 Pails Lard
ORIGINAL CAR NUMBERS AND INITIALS	
A.R.L. 19785	

Specimen Not Negotiable

*SHIPPERS Weight 62000 Pounds. (Subject to Correction.)

(*U. S. Law requires Agent issuing Bill of Lading to write either "shipper's" or "carrier's" before "weight.")

To be carried to the Port (A) of NEW YORK and thence by DOMINION LINE to the Port (B) BRISTOL (or so near thereto as steamer may safely get, with liberty to call at any port or ports in or out of the customary route), and to be there delivered in like good order and condition as above consigned, or to consignee's assigns, or to another carrier on the route to destination if consigned beyond said port (B), upon payment immediately on discharge of the property, of the freight thereon, at the rate from CHICAGO, ILL to BRISTOL, ENGLAND

of Inland rate: INLAND RATE 30c per 100 # PREPAID

Cartage to Steamer, if any: OCEAN RATE 82.50c per 100# COLLECT

Ocean rate: ......

Through Rate: ......

cents, United States Gold Currency, per one hundred pounds, gross weight (unless otherwise specified), and advanced charges ...... ($ ......), with all other charges and average, without any allowance of credit or discount; settlement to be made on the basis of 4 shillings 2 pence, 4.25 marks, 5.25 francs, 2.50 Dutch gulders, 3.80 kroner to the dollar, United States gold currency; if in other currency than herein provided for, settlement to be made at the rate of \$4.80 to the pound sterling, at the current rate of exchange officially quoted on the day the ocean steamer enters the Custom House ...... short-sight bills on London can be bought; when ocean freight is prepaid, \$4.86 United States gold is equivalent to one pound sterling.

In consideration of the rate of freight herein named, it is hereby stipulated that the service to be performed hereunder shall be subject to the conditions, whether printed or written, herein contained, and said conditions are hereby agreed to by the shipper and by him accepted for himself and his assigns as just and reasonable.

CONDITIONS.

Any alteration, addition, or erasure in this bill of lading which shall be made without the special notation hereon of the agent of the carrier issuing this bill of lading shall be void.

ing the nature and character of such merchandise, to the master, mate, or officer or person in charge of the loading of the ship or vessel, shall forfeit to the UNITED STATES ONE THOUSAND DOLLARS.

IN WITNESS WHEREOF, The Agent signing on behalf of the said Union Line, and of the said Ocean Steamship Company, or Ocean Steamer and her owner, severally and not jointly, hath affirmed to TWO (2) Bills of Lading, all of this tenor and date, one of which Bills being accomplished, the others to stand void.

...... Agent.

On behalf of carriers severally but not jointly.

Per ......

MARKS AND NUMBERS

B/L No. 23

Dated 2/17/14

Marks and Nos.

(B) 72

Claims (if any) hereunder are payable with

Agents of the Company at

$ 6910.

MARINE DEPARTMENT

No. A. & CO. 6837

CERTIFICATE OF INSURANCE

Ætna Insurance Company, Hartford, Conn.

TALBOT, BIRD & CO., AGENTS
63-65 BEAVER ST., NEW YORK

NEW YORK, Feby 17th, 1914

This is to Certify, That on the 17th of Feby this Company insured under Policy No. 21150 for ARMOUR AND COMPANY, the sum of Sixty nine hundred ten Dollars, on 2000 Pails Lard

valued at sum insured per steamer or steamers.

at and from Chicago via New York to Bristol Eng

Loss, if any, payable to ARMOUR AND COMPANY or order, on surrender of this Certificate.

Not Negotiable

This Certificate represents and takes the place of the Policy, and conveys all the rights of the Original Policy-Holder (for the purpose of collecting any loss or claims), as fully as if the property was covered by a special Policy direct to the holder of this Certificate, and free from any liability for unpaid premiums.

Not valid unless countersigned by ARMOUR AND COMPANY

Wm. B. Clark
President

Countersigned by ARMOUR AND COMPANY
Per J. Frisbie

[Ed. April, '13]

Form 3583 DX

CHICAGO, U. S. A. February 17th, 1914

INVOICE OF 2000 Pails Lard

SHIPPED Feb. 17, 1914 PER Star Union Line RAILROAD TO New York.

FOR SHIPMENT PER Dominion S. S. LINE TO Bristol

FOR ACCOUNT AND RISK OF MESSRS. ARMOUR AND COMPANY LTD.,
BRISTOL, ENGLAND

By ARMOUR AND COMPANY

CIF BRISTOL SALE NO. 72 AS PER cable DATED Feb. 10th, 1914

(B)
72

2000 Pails	Lard	56000 lbs 500 cwt	53/-	1325- 0- 0
	Less ocean freight 56000 lbs @ 22.50c - $148.50	@ 4.80		30-18- 9
				1294- 1- 3
	Less Discount 1%			12-18-10
				£ 1281- 2- 5

Intended for S. S. "ENGLISHMAN" sailing February 25th, 1914

We have drawn on you to-day for £ 1281- 2- 5 at 3 days' sight, Draft No. 2604, to which are attached:
INVOICE FOR SALE NO. 72, for £ 1281- 2- 5
GOVT INSPECTION CERTIFICATE NO. 355835
AETNA INSURANCE CERTIFICATE NO. 6837, for $6910.00
STAR UNION LINE EXPORT BILL OF LADING NO. 23.

E&OE

Specimen

ducts. Small establishments manufacturing $20,000 and less constituted 25.9 of the total number, and the value of their products was but one-half of 1 per cent. of the total.

The process of tanning is simple, being merely the immersion of the hide into a solution for a stated time, and drying. The next step is the middleman, who buys the leather from the tanners and sells it to the manufacturers, so the goods move from the animal to the tanner, through the middleman (also often a tanner) to the manufacturer, to the jobber, retailer, and consumer.

Imports of raw skins, are of course financed upon letters of credit, drawn on London, as is the custom in all other import operations. If the importer cannot finance the transaction with his own capital and banking accommodations the goods are released upon a trust receipt.

Terms of Leather Credit

Owing to the liberal terms upon which leather is sold on open credit and the generous discounts for cash payment, the bulk of the leather business is done on book account. The terms for open credit are: Sole leather, 4 per cent. ten days; three per cent. thirty days; two per cent. sixty days, net ninety days. Or, to express it as obtains in the trade, 4/10, 3/30, 2/60, net 90. Upper leather is usually sold on 5/10, 4/30, 4 months net. Fancy leather 2/10, net.

The consumers of leather which are principally the shoe manufacturers, belting concerns, and manufacturers of leather goods, harness, etc., particularly the shoe manufacturers, sell their single name paper in the open market and buy for cash. All large tanners, jobbers, and shoe manufacturers issue single name paper. One of the largest paper brokers in New York does not have receivables from either tanners, jobbers or shoemakers.

Lumber and Lumber Paper

Lumber as a commodity differs essentially from such products as grain, meat, and other perishable products, in that it will keep for a long time under proper conditions, and aside from the fire hazard, which can be insured, is void of risk, for prices are not subject to sudden fluctuations and tend upwards as the supply becomes depleted. Lumber is being cut and consumed three times as fast as it is being grown and is an article in constant and widespread demand.

The lumber industry reaches colossal proportions, and is so wide spread in its operations that it practically covers the country, being concentrated, of course, in virgin regions where the standing timber is still uncut. No less than 45,000 establishments, large and small, are given over to the working of lumber in various forms, employing 797,825 persons, all but 185,000 being in logging camps and saw mills.

The capital employed is $1,182,330,000, and the salaries, wages and services amount to over $735,000,000, yearly. The value of the products is over $1,160,644,600 to which is added in the course of manufacture over $652,429,475, the cost of materials being 43.8 of the total value.

The State of Washington leads, with value of products $89,154,000, and New York comes next with $72,529,800. 19,500 establishments produced less than $5,000 of finished products; 2,446 between one hundred thousand and a million, and only 72, a million or over. The credit operations of this industry will therefore be confined largely to the minority, the first mentioned dealers working on open account. The above figures, of course, do not include carpenters and builders. Some timber owners operate mills of their own, while others sell to millers who cut and sell to the trade.

Lumber in storage is carried by personal capital, and is rarely pledged for bank accommodation. Trust receipts are not used, experienced bankers stating that they have never seen such an instrument in connection with lumber transactions. In making shipments, where the lumber must be transferred from rail to boat and vice versa, the credit of the operator is sufficient to safeguard the transfer without the use of trust receipt as obtains in other lines.

The terms adopted by the National Wholesale Lumber Dealers Association are: The freight, net cash, balance by note, 60 days from date of invoice; one and one-half per cent. discount for cash within 15 days from date of invoice. One per cent. for cash within 30 days from date of invoice. No discount after 30 days. The New York terms are 2/10, note at 90 days from delivery at the buyer's option. Philadelphia terms are note 60 days, and Boston terms likewise. The general custom is to pay by notes as above, these going into the open market through brokers. Single name paper is issued by a few large concerns, but lumber paper is mostly two name. Some banks will not buy lumber paper, on account of its slow moving qualities and bulk.

The lumber business is not crowded with speculators, who deal on margin, and the companies in the field are large and powerful.

The industry consists of five classes: The holders of the standing timber; the millers who saw; the wholesalers who buy of the mills (some mills have their own selling organization, and the wholesalers often have an interest in the mills); lastly the retailers and the final consumers,—carpenters, furniture manufacturers, contractors, railroads, etc.

Control of Timber

Of the standing timber in the United States, the Government owns one-quarter; two railroad companies and three lumber companies one-quarter; 190 individuals one-quarter, and the rest is scattered. Sixty-seven owners control 40 per cent. of the long leaf pine, and in the Lake States six owners control one-half the Norway pine. In the Pacific northwest thirty-seven owners control half the standing timber, the average holding being fourteen thousand million feet each, while three owners control one-eighth of the total supply of privately owned standing timber in the United States.

Lumber Credit

The lumber industry gives rise to three forms of credit instruments: Timber bonds, lumber receivables and single name lumber paper. Standing timber is financed by issues of timber bonds, supplemented by private capital, the former method covering large and expensive tracts, and is the development of the past decade or two.

Where there is immediate prospect of its being utilized for manufacture standing timber is generally financed by means of bond issues; that is, where milling concerns are required to borrow for their operations. These bonds mature serially, and, as the timber is cut, a sinking fund of generally the amount of the value of the stumpage is deposited with the Trustee for the purpose of meeting the bond maturities and expenses.

Yard stocks of lumber at the mill are generally held on the books of the milling companies as merchandise, and except in the cases of companies which are weak financially, are seldom pledged for loans. In some instance however, where there are bond issues, all of the assets of the milling company, including the plant, and, of course, the yard stocks, are included under the terms of the mortgage.

After cutting into standard sizes, the lumber is sold through selling agencies of the timber companies or branch offices in the large cities, or wholesale dealers, and moves from the mill to the wholesaler on bill of lading with draft, or on open account, usually the latter. Many mills sell direct and eliminate the wholesaler, and the middleman does not play an important part in this industry.

As strictly commercial paper, there is very little single name lumber paper issued by concerns in the Pacific Northwest. In fact there are but one or two concerns which have availed themselves of the facilities of the commercial paper brokers. Strictly speaking there is no considerable quantity of lumber paper, either single name paper or two name paper, on the market. Generally lumber companies are closely allied with their local banks and their needs are taken care of through these connections, or, as before stated, by bond issues. Lumber accounts receivable are generally considered quite good, especially those from the manufacturers to the yards, and even retail accounts compare favorably as a whole, with most other accounts receivable.

Two name lumber paper originates as follows: A large New York concern, for instance, might go into the South and buy a million feet of lumber, on four months' time, giving its notes as the lumber is delivered. It, in turn, sells to the consumers, taking their notes. The latter are sold through brokers, and with the proceeds, the first mentioned notes are met at maturity. There would thus be two sets of receivables in existence at the same time, representing the same commodities.

The Bank Acceptance

Chapter VI

ONE of the chief merits and distinguishing features of the European Banking systems lies in the bank acceptance, the effect of which has been to standardize bills of exchange, and add new powers and effectiveness to them so that by virtue of the credit quality they become part of the circulating medium of the country.

The acceptance is not only the best but the cheapest form of the credit instrument;

cheapest in that it does not deplete the cash holdings of the acceptor, no reserve being needed to safeguard the risk; the principal requisite being that the acceptor shall be in high standing, and with resources and record that will stamp the acceptance as of high quality by virtue of the power back of it. It is the most effective form of credit in that such an instrument possesses all the functions of money in discharging indebtedness, and as such becomes an integral part of the monetary system of the country.

The acceptance is most highly developed in England, France and Germany. But not until the establishment of the Federal Reserve Banks and the enactment of the new New York State Banking Law in April 1914, was the bank acceptance known in our banking practice. In England and Germany the *bank* acceptance is the principal form of credit, while in France the *individual* acceptance is the most common form. The distinctive methods that obtain in each of these countries will be found in the chapters devoted to those countries.

The Acceptance—How Made

The acceptance comes into being by the mere act of writing anywhere on an instrument, but preferably across the face, the words:

"ACCEPTED"

November 15, 1914

Payable February 16, 1915

Tenth National Bank, New York.

No particular form is necessary, and any words that signify an acceptance are sufficient. "Seen," "O.K.," "Good," "Presented," or merely writing one's name across the face of the instrument have been held sufficient; but the recognized form is as above.

It thereby becomes the promise of the acceptor to pay to the payee the amount named, and is equivalent to the promise in a promissory note.

In England the acceptance must be in writing across the face of the bill. In this country, under the Negotiable Instruments Law, it need not be on the face of the bill, but must be in writing, although it may be on a separate piece of paper, or it may be made by telegraph. But under the statute the holder is entitled to an acceptance on the bill.

The Theory of the Acceptance

The mere writing of the words "accepted" across the face of a bill over the name of an internationally known bank, changes the character from an unknown instrument which would pass current, if at all, only in the locality where known to an instrument acceptable anywhere in the banking circles. The commercial effect is to change a bill of exchange drawn, it may be, by an unknown merchant in some little town, on another, no better known, to the promise to pay of a well-known banking corporation, whose name is synonymous with all that is good.

The bank by accepting does not merely engage that the maker is good and will pay as per agreement, or that funds will be on deposit to meet the instrument at maturity, but that it will pay according to the tenor of its acceptance, absolutely and without condition.

There are, of course, in circulation, also, the acceptances of private houses no less well known, whose acceptance makes the paper "prime," and therefore of the highest quality. But even in England where the acceptance has reached a high state of development, the number of such houses is less than a dozen. Then come the acceptances of houses in a lower stratum of credit, acceptances based on merchandise, the quality of the acceptance being immaterial, since it is based upon the worth of the merchandise involved. And still lower down, the acceptance of the individual upon a trade bill, representing a purchase of goods, and this by virtue of the name attached, usually three, becomes eligible for rediscount at the central institution. In France especially, the latter forms a very important element in the banking system.

The banker, by adding his name to paper, supplements the credit of the individuals thereon—in fact supplants their credit with his own, giving to the public his credit in exchange for theirs. Thus in the English bank statements will be found on the asset side "Liability of customers on acceptances" (which may be secured or unsecured) and as a liability, "acceptances," which represents on the one hand the obligation of the bank to the holders of the paper outstanding and accepted, and on the other the liability of the makers to the bank.

The power of the bank to accept a bill of exchange enables it to sell for gain the credit it possesses, without parting with a dollar of reserve. It lends not cash, but credit. It holds no reserve against its acceptances, for as they fall due the drawees will have funds in the bankers' hands to meet the obligation. It is the drawee's duty to look out that a reserve is available to meet his engagements, and the burden is shifted from a few bankers to many individuals.

The banker's cash is therefore held as a basis for cash advances where such are necessary, and to meet foreign demands which only the metal will satisfy. In the American market the lending of one hundred millions would mean the setting aside of eighteen millions in lawful money or gold, while in Europe it involves no cash whatever.

As is well known, the common form of borrowing in this country is by means of the promissory note, and while it is the credit instrument that is used most generally in commercial transactions, it does not and cannot enter into the circulating medium of the country, because it carries no token of strength.

The manner in which the accepted bill of exchange performs all the functions of money, and becomes a circulating credit, is well typified by the practice in Germany, where the merchant instead of paying by check or in cash, gives the dealer from whom he has bought goods a bill of exchange, payable in from three to six months. The dealer uses the customer's bill in making payment to his creditor, and so on until it finds its way into a banker's hands. The bill, therefore, performs a series of monetary transfers, for the holders prefer to pass the bill on, rather than discount it, which would cost the discount. Business men in Germany, other than bankers, are in the habit of accepting such bills at face value as cash. The growth of the use of bills of exchange in Germany will be seen from the fact that in 1872 the average amount of bills put in circulation, per capita was 312 marks, while in 1912 it was 495 marks.

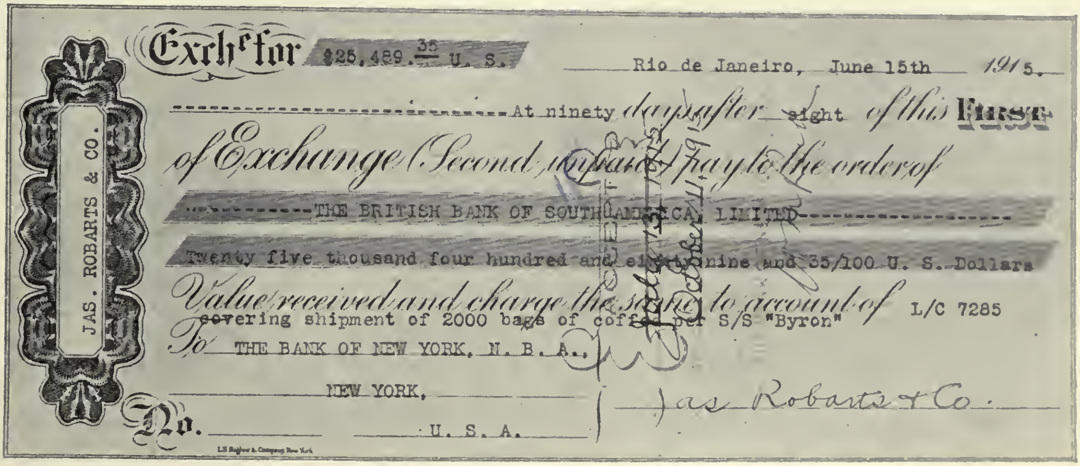
Acceptance in the United States Under the Old Regime

The National Banking Act did not prohibit acceptances in so many words, but the courts have held that a National Bank had no power to lend its credit, and therefore could not make an acceptance. The lack of the acceptance privilege had much to do with retarding the development of a discount market here.

Acceptance—Under the Federal Reserve Act

Section 13.—"Any Federal reserve bank may discount acceptances which are based on the importation or exportation of goods and which have a maturity at time of discount of not more than three months, and indorsed by at least one member bank. The amount of acceptances so discounted shall at no time exceed one-half the paid-up *and unimpaired* capital stock and surplus of the bank for which the rediscounts are made, *except by authority of the Federal Reserve Board, under such general regulations as said board may prescribe, but not to exceed the capital stock and surplus of such bank.**

The aggregate of such notes and bills bearing the signature or indorsement of any one person, company, firm, or corporation rediscounted for any one bank shall at no time exceed ten per centum of the unimpaired capital and surplus of said bank; but this restriction shall not apply


Exch^e for $25,489.35 U. S.   Rio de Janeiro, June 15th 1915
At ninety days after sight of this First of Exchange (Second unpaid) Pay to the order of
THE BRITISH BANK OF SOUTH AMERICA, LIMITED
Twenty five thousand four hundred and eighty nine and 35/100 U. S. Dollars
Value received and charge the same to account of   L/C 7285
covering shipment of 2000 bags of coffee per S/S "Byron"
To THE BANK OF NEW YORK, N. B. A.
NEW YORK,
No.   U. S. A.
Jas Roberts & Co.
JAS. ROBARTS & CO.

By courtesy of Bernhard, Scholle & Co. of New York and the Bank of New York, National Banking Association

Facsimile of a Prime Acceptance

This Acceptance being based on an importation of goods it is eligible for rediscount at a Federal Reserve Bank.

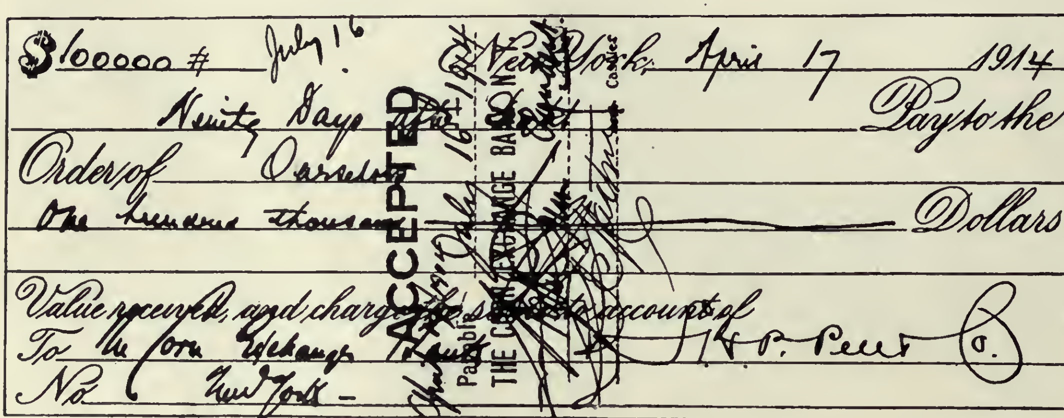
* Italics are the amendments approved March 3, 1915.

to the discount of bills of exchange drawn in good faith against actually existing values.

"Any member bank may accept drafts or bills of exchange drawn upon it and growing out of transactions involving the importation or exportation of goods having not more than six months sight to run; but no bank shall accept such bills to an amount equal at any time in the aggregate to more than one-half its paid-up *and unimpaired* capital stock and surplus, *except by authority of the Federal Reserve Board, under such general regulations as said board may prescribe, but not to exceed the capital stock and surplus of such bank, and such regulations shall apply to all banks alike, regardless of the amount of capital stock and surplus.**

customers and to issue letters of credit authorizing the holders thereof to draw drafts upon it or its correspondents at sight or on time, not exceeding one year.

The distinction between the two lies in the fact that under the Federal Reserve Act, acceptances can only arise out of import and export operations; while under the New York Act, there are no restrictions as to the origin of the paper. Moreover, the New York banks are not limited as to the amount of acceptances they may make in total, although they are not allowed to loan by way of any extension of credit, by means of letters of credit or by acceptances, more than one-tenth part of the capital and surplus, to any


$100000 # July 1st New York April 17 1914
Ninety Days after Date Pay to the
Order of Ourselves
One hundred thousand Dollars
Value received, and charge the same to account of
To the Corn Exchange Bank
No. New York
ACCEPTED
Payable
THE CORN EXCHANGE BANK

By courtesy of Corn Exchange Bank and Theo. H. Price of New York

Facsimile of the first Acceptance under the revised banking law of New York

This is the first bank acceptance to be made in this country under legal sanction. As it was not based on a commercial transaction it was secured by A1 collateral. Under the Federal Reserve Act an acceptance of this character would not be eligible for rediscount at a Federal Reserve Bank.

Section 14.—"Any Federal reserve bank may, under rules and regulations prescribed by the Federal Reserve Board, purchase and sell in the open market, at home or abroad, either from or to domestic or foreign banks, firms, corporations, or individuals, cable transfers and bankers' acceptances and bills of exchange of the kinds and maturities by this Act made eligible for rediscount, with or without the indorsement of a member bank.

Acceptance Under The Revised Banking Laws of New York

In order that banks and trust companies in New York may have similar powers the revised banking law of New York permits a bank or trust company to *accept* for payment at a future date, drafts drawn upon it by its

individual, partnership, corporation or unincorporated association, etc. Banks in the Federal Reserve System may not accept paper running longer than six months, while New York banks may accept up to one year.

There are, however, three other forms of acceptance widely in vogue in this country, neither of which conforms to the European idea of acceptances; (a) The certification of checks; (b) the acceptance of selling agents of bills drawn by their principals; and (c) the acceptance of merchants and others, of drafts drawn upon them by creditors, the same, after acceptance, being a warrant to the bank to charge the same to the drawee's account and remit to the drawer. These are methods often used for collecting overdue accounts.

The certification of checks, which plays such

* Italics are the Amendments approved March 3, 1915.

an important role in stock exchange transactions, is in a sense an acceptance, some banks using the term "accepted" instead of "certified," as is the ruling custom.

But it is not an acceptance in the true sense of the term, since the certification acceptance is against a deposit of cash, and is merely a formal acknowledgement that the drawer has the amount on deposit and that the bank will hold the same pending the receipt of the certified item for payment.

The nearest approach to an acceptance (finance bill) in this country prior to the federal reserve law was the practice in vogue between mill owners and their selling agents. These mills draw upon the agent or factor who accepts and returns the paper, which is then discounted by the mill in its local bank. It is in reality an accommodation indorsement. These acceptances are sometimes sold through brokers in the open market.

The Acceptance in International Trade

The present method of financing American imports is best made plain by considering a typical case in the form of a commercial letter of credit which illustrates the part that London has always played in all such international transactions. The reason for establishing a credit in London and thereby providing an English acceptance was not because there were no good banks in the United States, but because they have heretofore been prohibited from doing an acceptance business under the National Banking Act, as construed by the Comptroller of the Currency; and by virtue of their long monopoly of the field, the English banks have established a world wide reputation, and world wide connections for such operations. It is the result of years of sound business practices. And having no acceptance market in the United States we have paid London annually heavy tribute for using her credit facilities.

Through the courtesy of the National Bank of the Republic of Chicago, we are given authority to reproduce herewith a Commercial Letter of Credit drawn on the London City and Midland Bank of London, also the importer's guaranty and application form.

In this transaction the London bank was notified by its Chicago correspondents that this Letter of Credit had been opened, and a copy was sent to them for their guidance. The original Letter of Credit was forwarded to the East India Trading Company, Colombo. Upon receipt of this Letter of Credit in Colombo the goods were shipped, and in accordance with the instructions contained therein the shipping documents required were taken to the bank and the Bill of Exchange negotiated, thus enabling them to realize on the transaction without delay.

The Bill of Exchange was then sent by the bank in Colombo to their London correspondent, who in turn had the same accepted and probably sold in the London market. Such a Bill of Exchange may have changed hands several times before it became due, the acceptor having no further interest in it as he knew that at the expiration of the ninety days the draft would be presented to him, and he would charge it to the account of the American bank that opened the credit.

It will be noted in the guaranty signed by the importer that the bank issuing the Letter of Credit is amply secured, having a clear title to the shipment while it is in transit, and full power to take possession of the goods and dispose of them at its discretion in the

APPLICATION FOR COMMERCIAL LETTER OF CREDIT

To the National Bank of the Republic
CHICAGO, ILLINOIS

Please issue for our account a Commercial Letter of Credit

on London as specified below:

Amount Seven thousand six hundred pounds sterling

In favor of East India Trading Company, Limited

Address Colombo, Ceylon

Drafts to be at Ninety days sight.

Shipment of 200 tons (2,240 lbs.) Ceylon cocoanut oil during March, 1914.

To be shipped to New York, U. S. A. (Chicago or Seaport)

Via New York, U. S. A. (Port of Arrival)

Drafts must be drawn on or before March 31st, 1914

Shipments must be completed on or before March 31st. 1914

Custom House Brokers Wakem and Mc Laughlin, Inc.

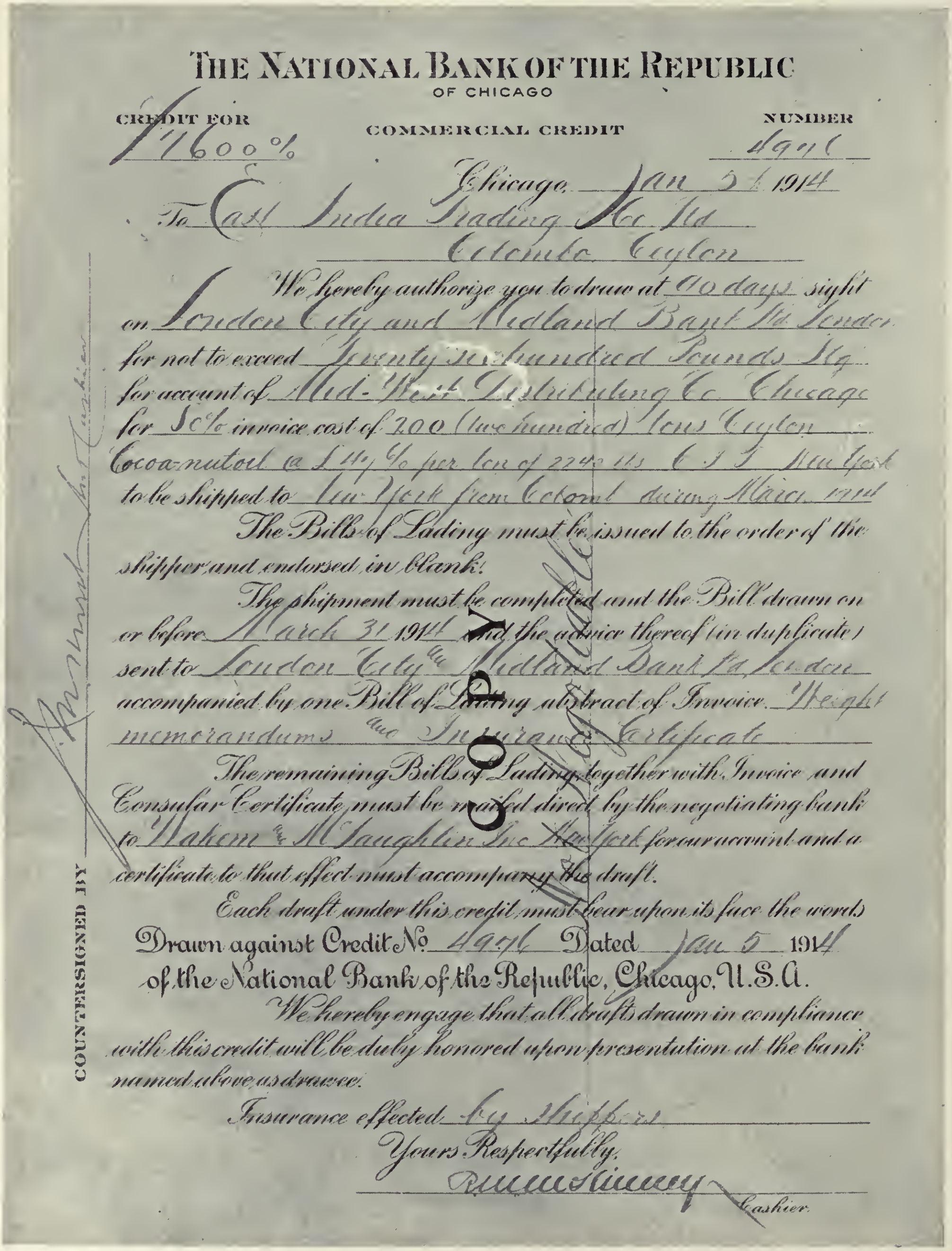
Documents to be sent to Wakem and Mc Laughlin, Inc. N.Y.

Insurance effected By shippers (Here or Abroad)

Special directions Drafts to cover 80% Invoice value @ £ 47/6/0 per ton, C. I. F. New York

Yours respectfully,
Mid-West Distributing Co.
By E. Williams
Treas.

Dated January 4, 1914.



THE NATIONAL BANK OF THE REPUBLIC
OF CHICAGO

CREDIT FOR £1600 %/ | COMMERCIAL CREDIT | NUMBER 4946

Chicago, Jan 5 1914

To East India Trading Co. Ltd
Colombo, Ceylon

We hereby authorize you to draw at 90 days sight on London City and Midland Bank Ltd London for not to exceed Sixteen hundred Pounds Stg. for account of Mid-West Distributing Co. Chicago for 80% invoice cost of 200 (two hundred) Tons Ceylon Cocoa-nut oil @ £14 % per ton of 2240 lbs C. I. F. New York to be shipped to New York from Colombo during March 1914

The Bills of Lading must be issued to the order of the shipper and endorsed in blank.

The shipment must be completed and the Bill drawn on or before March 31 1914 and the advice thereof (in duplicate) sent to London City and Midland Bank Ltd, London accompanied by one Bill of Lading, abstract of Invoice, Weight memorandums and Insurance Certificate

The remaining Bills of Lading together with Invoice and Consular Certificate must be mailed direct by the negotiating bank to Wakem & McLaughlin Inc New York for our account and a certificate to that effect must accompany the draft.

Each draft under this credit must bear upon its face the words

Drawn against Credit No 4946 Dated Jan 5 1914 of the National Bank of the Republic, Chicago, U.S.A.

We hereby engage that all drafts drawn in compliance with this credit will be duly honored upon presentation at the bank named above as drawee.

Insurance effected by Shippers

Yours Respectfully,
R. M. McKinney
Cashier.

COUNTERSIGNED BY ... Asst. Cashier

COPY

By courtesy of the National Bank of the Republic, Chicago

Facsimile of Commercial Letter of Credit

event the amount of the draft is not paid by the importer when due.

In addition to the guaranty which is shown herewith, the bank usually requires the importer to sign a trust receipt when the goods arrive in this country. In such a receipt the importer agrees to hold in trust for account and benefit of the bank, as its agents, the merchandise as specified, with power to sell the same and in case of sale to pay over to the bank the proceeds as security for any sums due or to become due under the relative

To the NATIONAL BANK OF THE REPUBLIC.

Chicago, January 5 1914

Gentlemen:

Having received from you Letter of Credit No. 4976 *for* £7600% (Seventy six hundred Pounds Stg) *on* London *copy of which is herewith annexed* we *hereby agree to its terms and in consideration thereof bind* ourselves *to reimburse you for any draft or drafts drawn thereunder,* twelve *days prior to maturity thereof, at the current rate of exchange for first-class Bankers' Bills. It is understood that the commission for accepting under this credit is to be* 3/4 *per cent.*

we *hereby give you a specific claim and lien on all goods or merchandise (and the proceeds thereof) for which you may have paid or come under any engagements under this credit, and on all policies of insurance (which* we *agree to effect) on such goods or merchandise to an amount sufficient to cover your advances or engagements under this credit, and on all bills of lading given for same, with full power and authority to take possession and dispose of the same at discretion, for your security or reimbursement, and to charge all expenses including commission for sale and guarantee. And* we *further agree to give you any additional security that may be demanded. And* we *further pledge to you as security for any other indebtedness of* ours *to you, any surplus that may remain, either in goods or the proceeds thereof after providing for the acceptance under this credit. We further authorize you to cancel this letter of credit at any time to the extent it shall not have been acted upon when notice of revocation is received by the user. This obligation is to continue in force and to be applicable to all transactions, notwithstanding any change in the individuals composing the respective firms, parties to this contract, or either of them, or in that of the user of this credit, whether such change shall arise from the accession of one or more new partners, or from the death or secession of any partner or partners.*

Yours respectfully,

Mid-West Distributing Company
By C. Williams
Treas

Importers' Guaranty

Letter of Credit. The importer also agrees that the delivery of the said merchandise to him shall not operate as a waiver of the ownership thereof, and continues the agreement that the bank made, that its representative may at any time enter any place where the said merchandise is stored and resume possession thereof. Provision is also made that the goods shall be insured by the importer at his expense against loss by fire, and such insurance to be made in the name of the bank.

While new methods have developed since the outbreak of the European war for financing importations of goods, the old custom of establishing credit in sterling, marks, and other standards will continue to be the leading form for quite some years to come.

International Acceptance Under the "Dollar Credit"

The latest form of acceptance for use in the international trade is the acceptance under the "Dollar Credit." The First National Bank of Boston was the first member of the Federal Reserve Association to adopt this form of acceptance.

The power conferred upon the members of the Federal Reserve Association, authorizing them to accept drafts and bills of exchange in connection with the exportation and importation of goods, together with the demoralization of our International Exchange Market by the European War, brought about this new method of financing our International Trade, through the medium of the "Dollar Credit," as a basis of International Exchange instead of the pound sterling.

conversion of American dollars into English or other currency. The First National Bank of Boston was the first member of the Federal Reserve Association to make acceptances under the "Dollar Credit." The advantages of this instrument drawn in dollars instead of sterling is explained by the bank as follows: "In the case of a dollar Credit, the invoices for merchandise purchased in dollars will be covered by a draft for the exact amount drawn under a dollar credit. No conversion, so far as the importer is concerned, is made either at the time of drawing or at the maturity of the draft in the United States".

The Advantage of the European Acceptance

Accepting drafts is an old business in Europe. There, it has long been an important factor in the economic life.


No 9911 Buenos-Aires 23d February 1915 For $18976.42 u.s.g.

Ninety days after sight of this our FIRST of Exchange (Second and Third of the same tenor and date not paid) pay The British Bank ... Ltd or order Eighteen thousand nine hundred Seventy six Dollars 42 cts u.s.g.

Value against 75 bags wool ... account of

To The First National Bank of Boston, Boston

ACCEPTED March 2 1915 THE FIRST NATIONAL BANK OF BOSTON, MASS.

with Kreglinger & Fernau London E. C.

Advised with Messrs G. & C. Kreglinger Antwerp

Specimen not negotiable

By courtesy of the First National Bank of Boston

Facsimile of Acceptance under the "Dollar Credit"

By establishing the so-called "Dollar Credit" in place of or interchangeable with "Sterling Credits" our financial relations with all foreign countries will no doubt, be materially improved.

Heretofore the only method open to the American importer, in purchasing goods in foreign countries was through Letters of Credit (as illustrated on a preceding page) drawn on London, Paris, Berlin and other foreign financial centers, which means the sending of funds to these centers and thence to the point where the goods were purchased, to finance the transaction.

The "Dollar Credit" will not only be more direct, but less expensive. It will obviate the

In the United States prior to the Federal Reserve System, commercial paper was a non-liquid asset, with no power of circulating in the money market. The banker bought the notes of his customers, or loaned direct, or bought commercial paper of the brokers, with no other thought than to have held it until maturity. It did not or could not circulate.

The European merchant, instead of borrowing from the bank direct, by giving his note and receiving credit against which he may check, arranges with his bank to accept his bills for him, up to a certain amount and for a certain time. He uses the credit by drawing his drafts on the bank in payment for goods,

and these are accepted by the bank for a small commission. Or, the merchant may arrange with his banker to accept bills drawn on him. When thus accepted they find a ready market. Again, the merchant in selling may draw on the buyer and upon the acceptance of the latter, sell the bill to his bank. The custom differs slightly in the various countries.

Trade obligations abroad are not settled by means of checks as in this country, or by promissory notes or cash, but by these acceptances, and when so used are a perfect means of payment. Their importance may be seen from the fact that such instruments drawn for the purpose of financing the cotton shipments to England aggregate in a single season from three to four hundred million dollars. The ability of the London market to finance this huge volume of transactions without stringency, or unsettling conditions generally is a forceful argument in favor of this principle of banking.

The London acceptance is recognized in all parts of the world as the standard. Many banks in London carry acceptances in their portfolios for short-time investors, as the prime acceptance there is considered very desirable paper for this class of customers. In other countries where drafts are accepted that are based on internal transactions, the negotiability of the instrument is not so easy.

Safeguards

It is apparent that a power so broad as the acceptance is potent with danger if not under some restraint. A bank might accept to an unlimited amount, and therefore become top heavy with contingent liability. As a means of making money, its power is unlimited, for nothing is necessary but to add a name and the work is done. No reserve is necessary, no quick assets need be carried to meet this contingent liability, dependence being placed upon the borrowers making good at the time of maturity. But in case the borrower should fail, a serious situation would arise, the bank being compelled to meet its acceptances, and would therefore use its assets to pay these at the cost of its other creditors.

There is no law to regulate these practices in the European countries; but a stronger force is at work—the credit standing of the bank and public opinion. One of the great banks of Europe once got caught in such a condition, and its acceptance thereafter was not "prime" and it has been a slow process of recovery.

In Europe banks use their own judgment and accept up to what they consider the line of safety. The amount of these acceptances does not bear any fixed relation to the capital or other assets. Some banks accept up to a certain proportion of their capital while others accept to many times their capital.

The Letter of Credit Issued in Dollars

The most modern form of credit instrument for financing importations and for the use of travelers throughout the world, is the letter of credit issued in dollars.

The first of the International Bankers to issue this instrument was The Equitable Trust Company of New York.

It has already proved to be exceedingly satisfactory in providing funds for travelers as well as to importing houses, and its success has been beyond the expectations of the issuing institution.

Heretofore an American importer buying goods in any foreign country would open a credit in Europe; most generally in London, in sterling, but under the new method drafts are drawn in dollars and cashed without charge for commission all over the world, and the operation of the credit is so simple that better rates of exchange are secured than any form of paper yet offered to the public.

For use in European countries, a table is printed inside the credit, providing for stated sums to be paid for the dollar draft. For instance, a draft for $100.00 would bring £20-9-2 in Great Britain, Frs. 514.35 in France and Switzerland, Mks. 418.85 in Germany, Lire 515.60 in Italy, Kroner 371.75 in Scandinavian countries, Guilders 246.90 in Holland, Kronen 490.20 in Austria and Rubles 193.25 in Russia, and other countries at current rates.

This credit differs from similar instruments issued by other institutions, inasmuch as it names the European banks on the face of the instrument where it can be cashed.

On the following page will be seen a facsimile of this instrument.

The issuance of the Dollar Letter of Credit has been a most important step toward making New York the financial clearing centre of the world.

THE
"E.T.C." DOLLAR
CIRCULAR LETTER OF CREDIT
ISSUED BY
THE EQUITABLE TRUST COMPANY OF NEW YORK

No. 0000

$5000.00 New York May 31st 1915

Gentlemen:-

We beg to introduce to you, and to commend to your usual courtesies Mr James J. Sherry to whom you will please furnish such funds as may be required up to the aggregate sum of Five-thousand and 00/100 U.S. DOLLARS (or the equivalent of same as listed on the third page of this credit) against sight drafts on the following Banks:

THE EQUITABLE TRUST COMPANY OF NEW YORK, NEW YORK, N.Y., U.S.A.

Union Bank of Canada	Toronto, Ontario	Banca Commerciale Italiana	Genoa
Equitable Trust Company of N.Y.,	London	Credito Italiano	Milan
London City & Midland Bank, Ltd.	London	Central Banken for Norge	Christiania
Equitable Trust Company of N.Y.,	Paris	Skandinaviska Kreditaktiebolaget	Stockholm
Comptoir National d'Escompte	Paris	Den Danske Landmandsbank	Copenhagen
Credit Lyonnais	Paris	Rotterdamsche Bankvereeniging	Rotterdam
Schweizerische Kreditanstalt	St. Gall	Wiener Bank-Verein	Vienna
Banque d'Anvers	Antwerp	Credit Lyonnais	Madrid
Deutsche Bank	Berlin	Banque Russo-Asiatique	Petrograd
Dresdner Bank	Berlin		

Each draft must bear the clause "Drawn under Dollar Letter of Credit No. 0000 of the Equitable Trust Company of New York."

We request you to pay these drafts for the face amount without commission or discount, and we engage that such drafts shall meet with due honor by the above banks, if negotiated not later than Dec 31st 1915 under the condition that the amounts thus negotiated have been inscribed on the inside of this Credit in U.S. DOLLARS. The Letter itself must be attached to the draft that exhausts the Credit.

Please see that the drafts are signed in your presence, and carefully compare the signature with the one affixed to the Letter of Indication issued in conjunction with this Letter of Credit.

We are, Gentlemen,
Yours Respectfully,

THE EQUITABLE TRUST COMPANY OF NEW YORK.

R. J. Vreeland Jr. V.P.

J. J. Cushing

Issued by

THE EQUITABLE TRUST COMPANY OF NEW YORK

MAIN OFFICE

58

To Messieurs: The Bankers mentioned in the Letter of Indication which must be produced herewith.

THIS LETTER TO BE SURRENDERED WITH THE FINAL DRAFT

SPECIMEN

1

By courtesy of the Equitable Trust Company of New York

Facsimile of Letter of Credit issued in dollars

Bills of Exchange on China

Chinese foreign trade with the United States is as yet in its infancy; this, and the fact that of all the Occidental nations America occupies a most favorable position with regard to Chinese trade, opens excellent opportunities for larger intercourse between China and America.

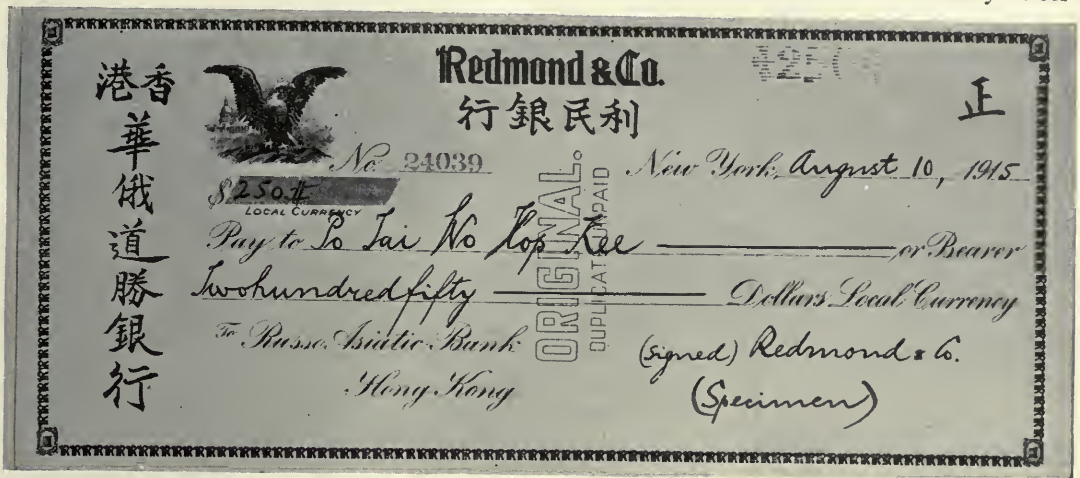
Our export to the great sister Republic consists mainly of flour, cotton goods, oil, machinery, ginseng, etc., whereas we import rice, silk, tea, bristles, furs and skins.

The American importer of Chinese goods will in most cases procure a Letter of Credit issued by a bank in this country in U. S. dollars, which the shipper presents to a bank in China to which he sells his documentary draft in cover of his shipment.

There are also many importers of Chinese nationality in this country who settle by remitting cheques to China on or before receipt of shipments. Such cheques are generally drawn on Hongkong in Hongkong dollars local currency (see specimen) or on Shanghai in Shanghai taels.

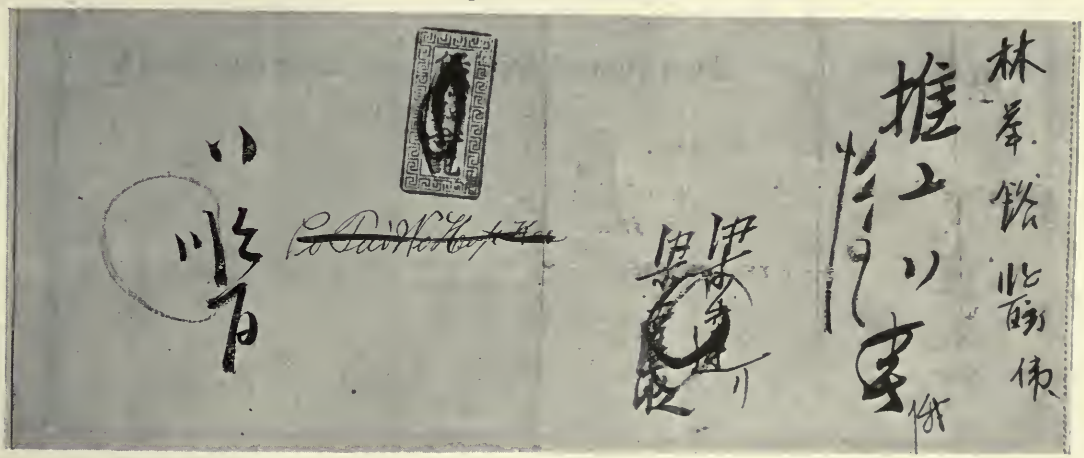
Exporters of American goods to China sell their drafts drawn at 30, 45, 60 days or longer with documents attached to the bank in this country, which has been authorized by its correspondents in China for account of the Chinese buyer, to negotiate such drafts (see letter of authorization on following page). If no credits are opened, American banks and bankers will take such drafts for collection or will discount them if the drawers or endorsers are good.

The Chinese banking system has no central banking institution; the financing of trade is done largely by foreign banks, which have branches in the important seaports, and by many local Chinese bankers.


香港 華俄道勝銀行
Redmond & Co.
利民銀行
正
No. 24039 New York, August 10, 1915
$250.# LOCAL CURRENCY
Pay to Po Tai No Hop Kee ——— or Bearer
Two hundred fifty ——— Dollars Local Currency
To Russo Asiatic Bank Hong Kong
(signed) Redmond & Co. (Specimen)
ORIGINAL DUPLICATE UNPAID

Courtesy of Redmond & Co., New York

Sight Draft on China



Courtesy of Redmond & Co., New York

Chinese Endorsement

RUSSO-ASIATIC BANK.

Hongkong, 25th November *19* 14

Messrs. Redmond & Co.,
New York.

Advice No. 5/266

We authorize you to buy on our account:

Particulars	
drafts drawn by	A. R. Jones & Co., New York.
drawn on	C. K. Smith, Hongkong.
for account of	
for the sum of	G$27,000 (Twenty seven thousand only). The first two shipments to be about G$4,500 per month and the rest about $2,300 till exhausted.
in all or revolving	In all.
usance of drafts	30 days after sight.
with Policy of Marine Insurance, Bills of Lading and Invoice for	Cotton to Hongkong.
deliverable against	Documents against payment.
In force till	31st December, 1915.

Conditions

With interest at 6 *% per annum added thereto from date of drafts to approximate duc date of arrival of cover in* New York.

Drafts must bear R.A.Bk. advice No. 5/266

Courtesy of Redmond & Co., New York

LETTER OF AUTHORIZATION

Bank Acceptances as Defined by the Federal Reserve Board

Chapter VII

Circular No. 11

Bankers' Acceptances

Washington, *April 2, 1915.*

An amendment of the Federal Reserve Act, approved March 3, 1915, made an alteration in paragraphs 3 and 5 of section 13, which are quoted at length on pages 39 and 40.

"ACCEPTANCES" are dealt with in the Federal Reserve Act in two different sections—sections 13 and 14, (mentioned in preceding chapter). Section 13 deals with the "acceptance" as one of the forms of paper in the discount of which Federal Reserve Banks may engage, restricting the discount of acceptances to such as bear the indorsement of a member bank. Section 14 invests the Federal Reserve Banks, under regulations to be prepared by the Federal Reserve Board, with power to engage in open-market operations, of which the "banker's acceptance" is one of the most important.

Careful study has led the Federal Reserve Board to the conclusion that, at any rate in the first stages, so far as practicable, priority should be given to operations under Section 13.

"The acceptance is still in its infancy in the field of American banking. How rapid its development will be cannot be foretold, but the development itself is certain. Opportunity is given by the Federal reserve act to assist the movement in this new direction; the present regulations are to be regarded as a first step and will be extended as circumstances and a reasonable regard for the other uses and needs of the credit facilities of the Federal reserve system may warrant.

"It is believed that it would unduly restrict the development of the acceptance business to keep it altogether confined within the provisions of section 13, which require that acceptances, in order to be eligible for rediscount at a Federal reserve bank, must bear the indorsement of a member bank; particularly in view of the further fact that the law limits the amount of acceptances which may be taken with the indorsement of a member bank to 50 per centum of its paid-in capital and surplus. Having found it necessary to extend the scope of dealings in acceptances beyond these limits, the board has exercised the authority conferred upon it by section 14, and has formulated regulations covering the purchase of acceptances without invariably requiring the indorsement of a member bank.

"The acceptance is the standard form of paper in the world discount market, and both on this account and because of its acknowledged liquidity universally commands a preferential rate. By reason of its being readily marketable it is widely regarded as a most desirable paper in the secondary reserves of banks and will help to provide an effective substitute for the 'call loan.' Its growth, however, will depend upon the ability of the American market to adjust its rates effectively to those prevailing in other markets for paper of this class."

Fixing Rates

"Recognizing these facts, the Federal Reserve Board has determined to allow the Federal reserve banks latitude in fixing rates for acceptances: Federal reserve banks may, from time to time, submit for the approval of the board maximum and minimum rates within which they desire to be authorized to deal in acceptances; within such limits and subject to such modifications as may be imposed by the board Federal reserve banks will be allowed to establish the rates at which they will deal in acceptances.

"The board believes it to be in accordance with the spirit of the act to accord preferential treatment to acceptances bearing the indorsement of member banks, offered for rediscount under section 13—even to the point of allowing lower rates for such acceptances, inasmuch as under the terms of this section, such acceptances are available as collateral against the issue of Federal reserve notes; and the board will sanction a slight preferential in favor of acceptances bearing the indorsement of member banks.

"When acceptances bearing the indorsement of member banks are not obtainable in adequate amount or upon satisfactory terms, Federal reserve banks desiring to purchase acceptances should restrict themselves as far as possible to such acceptances as bear some other responsible signature (other than that of the drawer and acceptor) and preferably that of a bank or banker."

The regulations of the board on banker's acceptance follow:

DEFINITION

Regulation J, April 2

In this regulation the term "acceptance" is defined as a draft or bill of exchange drawn to order, having a definite maturity and payable in dollars in the United States, the obligation to pay which has been accepted by an acknowledgment written or stamped and signed across the face of the instrument by the party on whom it is drawn; such agreement to be to the effect that the acceptor will pay at maturity according to the tenor of such draft or bill without qualifying conditions.

STATUTORY REQUIREMENTS UNDER SECTIONS 13 AND 14

Section 13 of the Federal reserve act provides that

(a) Any Federal reserve bank may discount acceptances

(1) Which are based on the importation or exportation of goods; (2) Which have a maturity at time of discount of not more than three months; and

(3) Which are indorsed by at least one member bank.

(b) The amount of acceptances so discounted shall at no time exceed one-half the paid-up capital stock and surplus of the bank for which the rediscounts are made.

(c) The aggregate of notes and bills bearing the signature or indorsement of any one person, company, firm or corporation rediscounted for any one bank shall at no time exceed ten per centum of the unimpaired capital and surplus of said bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values.

Section 14 of the Federal reserve act permits Federal reserve banks, under regulations to be prescribed by the Federal Reserve Board to purchase and sell in the open market bankers' acceptances, with or without the indorsement of some member bank.

"ELIGIBILITY"

The Federal Reserve Board has determined that, until further order, to be eligible for discount under section 13 by Federal reserve banks at rates to be established for bankers' acceptances:

(a) Acceptances must comply with the provisions of Paragraph II (a), (b), (c), hereof;

(b) Acceptances must have been made by a member bank, non-member bank, trust company, or by some private banking firm, person, company or corporation engaged in the business of accepting or discounting. Such acceptances will hereafter be referred to as "bankers'" acceptances;

(c) A Banker's acceptance must be drawn by a commercial, industrial or agricultural concern (that is, some person, firm, company or corporation) directly connected with the importation or exportation of the goods involved in the transaction in which the acceptance originated, or by a "banker." In the latter case the goods, the importation or exportation of which is to be financed by the acceptance, must be clearly specified in the agreement with or the letter of advice to the acceptor. The bill must not be drawn or renewed after the goods have been surrendered to the purchaser or consignee.

(d) A banker's acceptance must bear on its face, or be accompanied by evidence in form satisfactory to a Federal reserve bank, that it originated in actual bona fide sale or consignment involving the importation or exportation of goods. Such evidence may consist of a certificate on or accompanying the acceptance to the following effect:

"This acceptance is based upon a transaction involving the importation or exportation of goods. Reference No. ——. Name of acceptor——."

(e) Bankers' acceptances, other than those of member banks, shall be eligible only after the acceptors shall have agreed in writing to furnish to the Federal reserve banks of the respective districts, upon request, information concerning the nature of the transactions against which acceptances (certified or bearing evidence under III (d) hereof) have been made.

(f) A bill of exchange accepted by a "banker" may be considered as drawn in good faith against "actually existing values," under II (c) hereof, when it is secured by a lien on or by transfer of title to the goods to be transported; or in case of release of the goods before payment of the acceptance, by the substitution of other adequate security.

(g) Except in so far as they may be secured by a lien on or by transfer of the title to the goods to be transported, the bills of any person, firm, company, or corporation, drawn on and accepted by any private banking firm, person, company, or corporation (other than a bank or trust company) engaged in the business of discounting or accepting, and discounted by a Federal reserve bank, shall at no time exceed in the aggregate a sum equal to five per centum of the paid-in capital of such Federal reserve bank.

(h) The aggregate of acceptances of any private banking firm, person, company, or corporation (other than a bank or trust company) engaged in the business of discounting or accepting, discounted or purchased by a Federal reserve bank, shall at no time exceed a sum equal to twenty-five per centum of the paid-in capital of such Federal reserve bank.

To be eligible for purchase by Federal reserve banks, under section 14, bankers' acceptance must comply with all requirements and be subject to all limitations hereinbefore stated, except that they need not be indorsed by a member bank: *Provided, however,* that no Federal reserve bank shall purchase the acceptance of a "banker" other than a member bank which does not bear the indorsement of a member bank, unless a Federal reserve bank has first secured a satisfactory statement of the financial condition of the acceptor in form to be approved by the Federal Reserve Board.

Policy as to Purchases

While it would appear impracticable to fix a maximum sum or percentage up to which Federal reserve banks may invest in bankers' acceptances, both under section 13 and section 14, it will be necessary to watch carefully the aggregate amount to be held from time to time. In framing their policy with respect to transactions in acceptances, Federal reserve banks will have to consider not only the local demands to be expected from their own members but also requirements to be met in other districts. The plan to be followed must in each case adapt itself to the constantly varying needs of the country.

Acceptance by Member Banks

Regulation K

Any member bank may accept drafts or bills of exchange drawn upon it, having not more than six months' sight to run and growing out of transactions involving the importation or exportation of goods up to an amount not exceeding the capital and surplus of such bank, provided that—

(1) Every such bank shall possess an unimpaired surplus of not less than 20 per cent. of its paid-in capital;

(2) Every such bank shall file formal application with the Federal Reserve Bank of its district, which shall report to the Federal Reserve Board upon the standing of such applicant, stating also whether the business and banking conditions prevailing in the district warrant the granting of such applications in said district.

(3) Every such applicant shall first have been approved by the Federal Reserve Board.

Approval of any such application may be rescinded, and modifications of this regulation may be made, by the Federal Reserve Board upon notice of 90 days to the bank or banks thereby affected.

Bills of Exchange Drawn Against Sales of Goods and Accepted by Purchasers; Hereinafter Referred to as "Trade Acceptances."

Circular No. 16
Regulation P.

Washington, *July 15, 1915.*

Definition

IN THIS regulation the term "trade acceptance" is defined as a bill of exchange of the character hereinafter described, drawn to order, having a definite maturity and payable in dollars in the United States, the obligation to pay which has been accepted by an acknowledgement, written or stamped, and signed, across the face of the instrument by the company, firm, corporation, or person upon whom it is drawn; such agreement to be to the effect that the acceptor will pay at maturity, according to its tenor, such draft or bill without qualifying conditions.

Character of Paper Eligible

A trade acceptance to be eligible for rediscount, under section 13, with a Federal Reserve Bank at the rate to be established for trade acceptances

(*a*) Must be indorsed by a member bank, accompanied by waiver of demand notice and protest.

(*b*) Must have a maturity at the time of discount of not more than 90 days.

(*c*) Must be accepted by the purchaser of goods sold to him by the drawer of the bill and the bill must have been drawn against indebtedness expressly incurred by the acceptor in the purchase of such goods.

Method of Certifying Eligibility

A trade acceptance must bear on its face, or be accompanied by, evidence in form satisfactory to the Federal Reserve Bank, that it was drawn by the seller of the goods on the purchaser of such goods. Such evidence may consist of a certificate on or accompanying the acceptance, to the following effect: "The obligation of the acceptor of this bill arises out of the purchase of goods from the drawer." Such certificate may be accepted by the Federal Reserve Bank as sufficient evidence; provided, however, that the Federal Reserve Bank, in its discretion, may inquire into the exact nature of the transaction underlying the acceptance.

Definition of Commercial Paper Eligible for Rediscount With the Federal Reserve Banks

Chapter VIII

Commercial Paper

Washington, *January 25, 1915.*

THE Board has formulated in Regulation B, hereto annexed (paragraph III), a new method for certifying the eligibility of bills for rediscount. While banks will not be required to comply with the provisions of paragraph III until after July 15, the new method prescribed is made a part of this regulation in order that advance notice may be given to all banks, so that those which are equipped to do so may begin to operate under its provisions as soon as possible. The Board suggests, furthermore, that Federal Reserve Banks insist that the accompanying regulation be applied as promptly as possible to all so-called "purchased paper"—that is, paper bought through brokers or others with whom the purchasing bank has no direct business relations. Where such direct connections do not exist the requirement that statements, both as to business conditions and methods of borrowing, be furnished appears to be a matter of prudence and should not be postponed. In such cases as these, where borrowers' statements in the required form are not available until after the close of the business year, statements for the previous year may be accepted, pending receipt of new statement in required form, even though such statements may not contain all the desired data.

While it has been thought best not to insist upon a written statement in the case of limited borrowings by depositors, when officers of member banks, from their own personal knowledge, certify to the eligibility of the paper for discount, it is urged, nevertheless, that member banks do their utmost to accustom their borrowers to furnishing such statements.

The word "bill," when used in this regulation, shall be construed to include notes, drafts, or bills of exchange, and the word "goods" shall be construed to include goods, wares, merchandise, or staple agricultural products, including live stock.

I.

Statutory Requirements

The Federal reserve act provides that a bill, other than an acceptance (see Circular No. 5 and Regulation D, to be published shortly), to be eligible for rediscount by a member bank with a Federal Reserve Bank, must comply with the following statutory requirements:

(*a*) It must be indorsed by a member bank, accompanied by a waiver of demand, notice, and protest.

(*b*) It must have a maturity at the time of discount of not more than 90 days, except as provided by Regulation C, accompanying Circular No. 4, Series of 1915.

(*c*) It must have arisen out of actual commercial transactions; that is, be a bill which has been issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been or are to be used for such purposes.

(*d*) It must not have been issued for carrying or trading in stocks, bonds, or other investment securities except bonds and notes of the Government of the United States; but the pledge of goods as security for a bill is not prohibited.

II.

Character of Paper Eligible

The Federal Reserve Board, exercising its statutory right to define the character of a bill eligible for rediscount at a Federal Reserve Bank, has determined:

(*a*) That it must be a bill the proceeds of which have been used or are to be used in producing, purchasing, carrying, or marketing goods in one or more of the steps of the process of production, manufacture, and distribution;

(*b*) That no bill is "eligible" the proceeds of which have been used or are to be used:

(1) For permanent or fixed investments of any kind, such as land, buildings, machinery (including therein additions, alterations, or other permanent improvements, except such as are properly to be regarded as costs of operation). It may be considered as sufficient evidence of compliance with this requirement if the borrower shows, by statement or otherwise, that he has a reasonable excess of quick assets over his current liabilities on open accounts, short-term notes, or otherwise;

(2) For investments of a merely speculative character, whether made in goods or otherwise.

III.

Methods of Certifying Eligibility

Any member bank applying for rediscount of a bill after July 15, 1915, must certify in its letter of application, over the signature of a duly authorized officer, that to the best of its knowledge and belief the bill was issued for one of the purposes mentioned in the above paragraphs and conforms to section 13 of the Federal Reserve Act and to this regulation.

(3)

It is recommended that every member bank maintain a file which shall contain original signed statements of the financial condition of borrowers, or true copies thereof, certified by a member bank or by a notary public, designating where the original statement is on file. Statements should contain all the information essential to a clear and correct knowledge of the borrower's credit and of his method of borrowing. A schedule specifying certain information, which it is desirable that such statements should include, is hereto appended.

Member banks shall certify in their letters of application for rediscount whether the paper offered for rediscount is depositor's or purchased paper, or paper rediscounted for other member banks, and whether statements are on file. When it does not appear that such statements are on file, except as hereinafter provided under (1), (2), and (3) below, the Federal Reserve Bank shall satisfy itself as to the eligibility of the paper offered for rediscount, and member banks will be expected to use such statement forms, identifying stamps, etc., as may be prescribed by the respective Federal Reserve Banks.

Any member bank rediscounting with a Federal Reserve Bank paper acquired from another member bank, with the indorsement of such member bank, may accept such member's certification regarding the character of the paper and the existence of the necessary statements.

Statements of the borrower's financial condition may be waived where bills offered for rediscount have been discounted by member banks for any of their depositors in the following cases:

(1) If the bill bears the signatures of the purchaser and the seller of the goods and presents prima facie evidence that it was issued for goods actually purchased or sold; or

(2) If the aggregate amount of obligations of such depositor actually rediscounted and offered for rediscount does not exceed $5,000, but in no event a sum in excess of 10

per centum of the paid-in capital of the member bank; or

(3) If the bill be specifically secured by approved warehouse receipts covering readily marketable staples:

Provided, however, That the bank shall certify to these conditions on the application blank in a manner to be designated by the respective Federal Reserve Banks.

APPENDIX.

Information Desired in Credit Files of Member Banks

The credit files of member banks, referred to in the above regulation, should include information concerning the following matters:

(*a*) The nature of the business or occupation of the borrower;

(*b*) If an individual, information as to his indebtedness and his financial responsibility;

(*c*) If a firm or corporation, a balance sheet showing quick assets, slow assets, permanent or fixed assets, current liabilities and accounts, short-term loans, long-term loans, capital and surplus;

(*d*) All contingent liabilities, such as indorsements, guaranties, etc.;

(*e*) Particulars respecting any mortgage debt and whether there is any lien on current assets;

(*f*) Such other information as may be necessary to determine whether the borrower is entitled to credit in the form of short-term loans.

New Rules on Agricultural Paper

The following regulation supersedes old regulation No. 5 on six months' agricultural paper.

"The word 'bill' when used in this regulation shall be construed to include notes, drafts or bills of exchange.

"Each Federal Reserve Bank may receive for discount bills which have a maturity of more than three but less than six months in an aggregate amount equal to a percentage of its capital stock to be fixed from time to time for each Federal Reserve Bank by the Federal Reserve Board.

"Provided, however, that such bills are drawn or issued for agricultural purposes or are based on live stock; that is, that their proceeds have been used or are to be used for agricultural purposes, including the breeding, raising, fattening or marketing of live stock; and

"Provided, further, that such bills comply in other respects with each and every provision of Regulation B, series of 1915."

Concerning the waiver of demand, notice and protest which is required on paper offered for discount, the board notified the banks:

"Attention is called to the fact that the waiver of demand, notice and protest by the bank procuring the discount does not release the holder of the note or bill discounted from the duty to protest such note or bill in order that those indorsers who have not executed such a waiver may be held liable.

"If the holder should fail to protest an indorsed note or bill at maturity the Federal Reserve Bank might, in such circumstances, hold the member bank liable on account of the waiver executed, but other indorsers would be legally released.

"Federal Reserve Banks are, therefore, cautioned to take all necessary steps to insure the protest of all maturing notes and bills which are in their possession or have been sent for collection through any correspondent bank wherever such notes or bills contain any indorsements not accompanied by a waiver of demand, notice, and protest. To insure this the bank or agent presenting any note or bill, held by the Federal Reserve Bank, at the place of payment at maturity should be instructed, if the same is dishonored, to immediately protest such note or bill and to have all necessary notices sent to the indorsers."

Bills of Exchange in England

Chapter IX

By reason of the fact that a debt due in London can be collected in gold, and by virtue of the vast aggregations of capital centered there, and the world wide affiliations of British trade, London has become not only the greatest gold market of the world, but the great clearing house of all nations. England's colonial policy, her free trade, the adherence to the gold standard, her accumulated wealth, and her trade relations everywhere have established her firmly as the financial leader of the world. The result has been that London is the chief market for bills from all over the world. And controlling the instruments of credit, she controls the gold supply.

London bills are held in large quantities on the continent; sold when rates are low and purchased when high, thus bringing to or taking from London, the money used in her financial operations.

The London Money Market

The notable feature of the London money market is the large annual fund available for outside investment, estimated by the London Statist to be about a billion dollars yearly, after providing for home requirements.

The London money market is confined to an area less than a square mile, the heart of which is the Bank of England. Then follows the eighty-two great joint stock banks, with over seven thousand branches employing over $680,000,000 in capital, and deposits of over five and a half billions; the forty Colonial banks with $750,000,000 out on call or short time loans, the thirty Foreign banks, which together with the Colonial banks practically cover the world with their branches, the great finance houses which make a specialty of accepting bills growing out of imports and exports, the stock brokers, about twenty bill brokers, the stock exchange and its affiliations; the insurance companies, and lastly the private lenders, who in the aggregate compose the great money-holding interests of London and what is ordinarily known as the London money market.

Seventeen of the largest English banks have an average capital of over $50,000,000.

The Bank of England

The most important of all is the Bank of England, since it has virtual control of the gold market, and by its discount rate and market operations can influence the monetary affairs of the world.

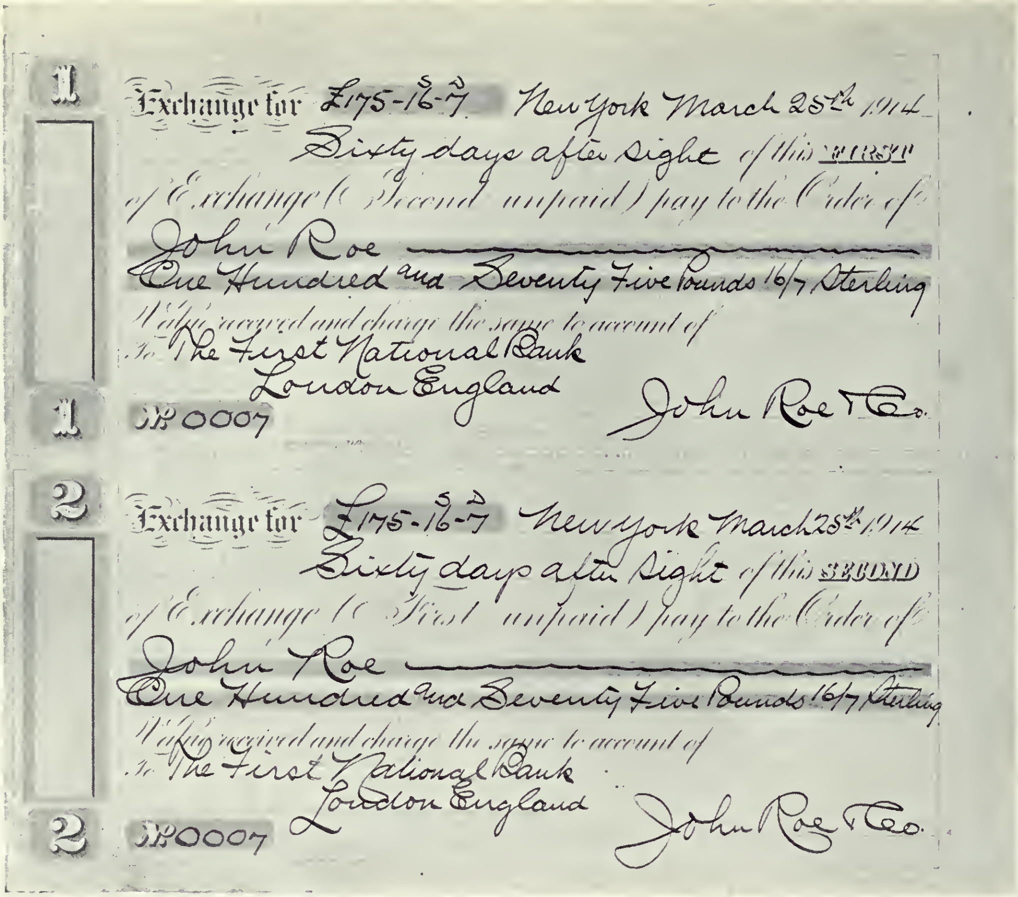
The Bank of England is a private corporation with over 10,000 stockholders. While it is the fiscal agent of the government, the latter has no control over its affairs, holds no stock, and has no supervisoral powers. It operates through eleven branches, two in London and nine in the Provinces. Its capital is now about $72,000,000, reserve (or surplus) $16,000,000.

Note Issue

Aside from note issues of twenty-three Provincial banks, amounting to only £300,000, the Bank of England has the sole right of note issue in England. It issues notes against securities up to $18,450,000, and notes to any amount against gold coin or gold and silver bullion; but the silver held must not exceed one-quarter of the gold coin and bullion. No silver bullion, however, has been held for many years. It does not issue notes against commercial paper, as do the Banks of Germany and France, and an English note is equivalent to a gold certificate. There is, however, practically very little bank note circulation in England, business being carried on quite largely through checks, the English check system being more highly developed than that of any other country. The circulation of the Bank of England is normally about £30,000,000, two-thirds of which is in the hands of the banks.

Bank Reserves

It holds the reserves of the other banks, and utilizes about forty per cent. of such balances in its loaning operations. Such reserves are considered the same as cash by the depositing banks. All the large London banks, and most of the Scotch and Irish banks have accounts with it. It carries no fixed reserve by law, but usually has over forty per cent. of its liabilities in gold, never in its history running below thirty per cent. until the outbreak of the War in 1914, when the



1 Exchange for £175-16-7 New York March 25th 1914

Sixty days after sight of this FIRST of Exchange (Second unpaid) pay to the Order of John Roe

One Hundred and Seventy Five Pounds 16/7 Sterling

Value received and charge the same to account of

To The First National Bank London England

John Roe & Co.

1 No. 0007

2 Exchange for £175-16-7 New York March 25th 1914

Sixty days after sight of this SECOND of Exchange (First unpaid) pay to the Order of John Roe

One Hundred and Seventy Five Pounds 16/7 Sterling

Value received and charge the same to account of

To The First National Bank London England

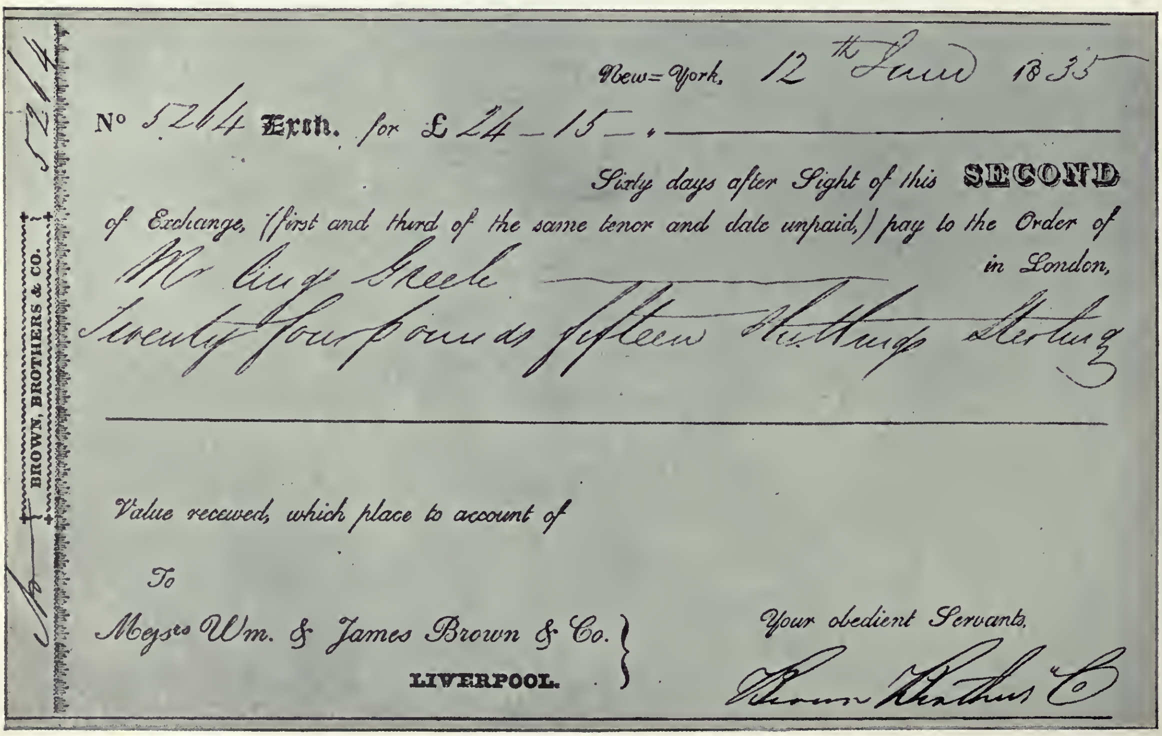
John Roe & Co.

2 No. 0007

By courtesy of Brown Bros. & Co., New York.

STERLING BILL OF EXCHANGE (TRADE BILL) ON LONDON

These are always drawn in duplicate (formerly in triplicate) and sent by different steamers to avoid loss in case of accident. By reason of this precaution an ocean disaster such as the loss of the *Titanic*, does not materially affect international monetary transactions. Note that this bill is in terms substantially the same as the bill drawn in 1835 by the same firm.



BROWN, BROTHERS & CO.

New=York, 12th June 1835

No 5264 Exch. for £ 24-15-.

Sixty days after Sight of this SECOND of Exchange, (first and third of the same tenor and date unpaid,) pay to the Order of Mr Geo. Steele in London,

Twenty four pounds fifteen Shillings Sterling

Value received, which place to account of

To

Messrs Wm. & James Brown & Co.
LIVERPOOL.

Your obedient Servants,

Brown Brothers & Co

By courtesy of Brown Bros. & Co., New York.

STERLING BILL OF EXCHANGE

Drawn in 1835. Terminology substantially the same as present-day bills.

reserve fell to 14.60 on August 7th, rising to 27.52 per cent. at the end of October.

Like the other great banks of Europe, the Bank of England not only holds the reserves of the nation, but has a marked influence on the money market. It accomplishes its regulatory work by two mediums: (a) The bank rate, and (b) gold purchases. When occasion requires it raises its discount rate, so that borrowing is checked and gold attracted from abroad.

Discounts

The Bank of England discounts all approved bills offered by persons having accounts with it, it is always prepared to discount for banks at the official rate, and does a large business with Colonial banks and foreign exchange bankers. It does not buy foreign bills, *i.e.*, bills payable abroad and does not purchase bills in the open market. It requires two British names to the bills it purchases and one must be the acceptor. There is no limit as to the minimum time, but the average length of time is from 40 to 50 days, and the average size of the bills is about £1,000.

It regulates the amount of discounts to one house to the necessities of the occasion, and the credit of the borrower. The rate is governed by the names to the paper, ranging from the lowest market rate to the bank rate and above. It usually charges the market rate.

It accepts stock exchange securities as collateral, except mining shares. Other securities are accepted if their value can be ascertained. It has no call loans.

The open market operations of the banks and brokers, is the great regulating force in the London money market. Any disposition to overtrade on the part of the commercial public is checked by the banks ceasing to buy bills. This of course, makes the demand less active and rates go up. The maturing bills are allowed to fall due without being renewed, which places the Bank in command of free money, and also lessens the demand for new bills. On the other hand a demand for accommodation results in higher rates. Loans on call to the brokers are called, and recourse is finally had to the Bank of England to buy bills, which, while not obligating itself to buy all bills that are offered, does purchase all bills that comply with its requirements. Commitments are curtailed as rates go up, new undertakings are abandoned, borrowing slackens, and as a result of high rates, money is attracted from abroad.

The whole theory of the English system is based on the keeping of balances with the Bank of England which are immediately convertible into cash, and the rediscounting of paper with the bank to obtain cash. When demands are heavy and the supply of funds low, the bank raises its rate and therefore discourages borrowing, and the higher rate attracts gold.

The Bank Rate

The rate at which the Bank of England will discount is fixed at the weekly meeting of the Court of Directors and is published on Thursday. The governor may raise the rate in the meantime if occasion requires, as was done in 1907. The rate is telegraphed to the branches every morning.

By buying all the gold offered at a fixed price, and by paying a higher price when occasion warrants, it is able to control the gold market. The raising of the rate checks borrowing and invites money from abroad. Interest on depositors' balances is usually one and one-half per cent. lower than the Bank rate, provided that does not go above four per cent. Market rates on loans vary with the rate paid on deposits, the Bank rate being the controlling factor in the discount market. Usually the market rate is below the bank rate which is the minimum.

Just how the raising of the bank rate affects the supply of gold, will be seen by a review of what happened in the London Money market in 1907 and 1914. On August 15, 1907 the rate was raised to 4½ per cent. at which figure it remained until October 31st. It was then raised to 5½ per cent. on which date the total bullion held by the Bank was $158,000,000, and the proportion of reserve to deposits was 39.7 per cent. On November 4th, the drain of gold still continuing, the governor, without waiting for the weekly meeting of Directors raised the rate to 6 per cent. On November 7th, the directors raised the rate still further to 7 per cent. the total bullion having run down to $143,000,000 and the proportion of reserves 35.2 per cent. Gold began to flow into London and on December 11th, the bullion holding stood at $170,000,000 or 47 per cent. At the end of January, when the rate had fallen to 4 per cent., the holdings stood at $192,000,000 or 56.6 per cent. The gold came from twenty-four countries, and if the 7 per cent. rate had not been effective, it would, according to the Governor, have been raised to 10 per cent., if necessary; which

rate would have been sufficient to bring gold out of the earth.

For a few days in the early part of August, 1914, the Bank of England rate was 10 per cent., but did not remain at that figure long, being reduced to 5 per cent. by August 15th, at which figure it still remains at this writing.

Character of Bills in London Market

There are two main classes of bills in the London market: (a) The trade bill, which liquidates a commercial transaction. Technically a trade bill is one drawn by one merchant on another. Thus A sells to B a bill of goods, and draws on him. He accepts the paper, and returns the bill to the seller who discounts the same with his banker, or in the open market. A "bank bill," while usually drawn to liquidate a commercial transaction, is accepted by a bank, and therefore becomes of higher quality than the acceptance of a merchant unless in very high standing.

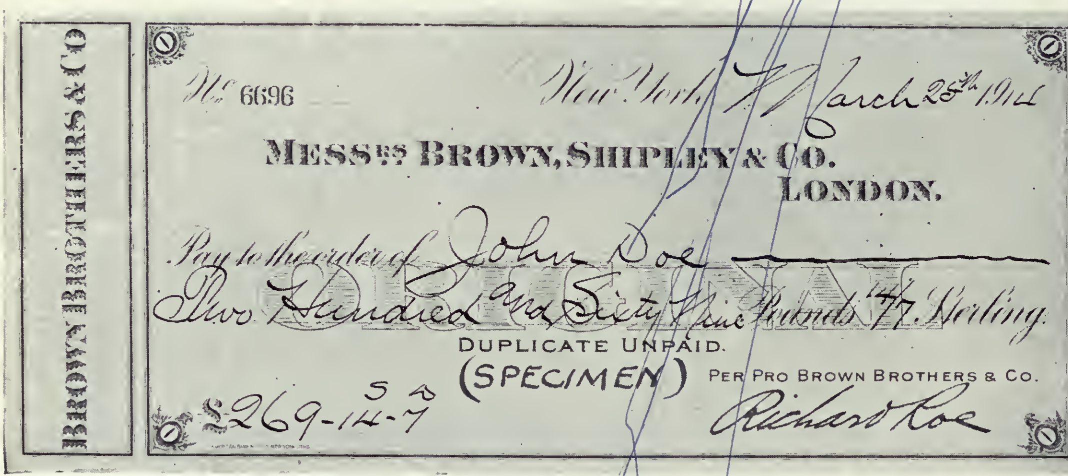
(b) Finance bills. These may represent exchange transactions, or for the purpose of carrying stocks of goods or securities, or in anticipation of public loans, or merely for accommodation. When properly accepted all but the last are rediscounted by the Bank of England, but the accommodation bill, if known to be such is not favored. Any bill that is accepted by a bank or banker or merchant in first class standing is a "prime bill" and obtains the lowest rates, the rates rising as the quality of the bill becomes poorer. The discount rate is usually one-half per cent. higher for trade bills than for bank bills.

The amount of paper discounted by the several houses is closely followed by the London discount market, and when a firm is overextending its credit, the rates are raised as a check. A house overdrawing its credit will find its bills selling below the market and take notice that the London market thinks it has stretched its credit a little too far.

Other Influences in the London Market

The English banks are fortunately free from special legislation in their behalf, and are governed largely by tradition and public opinion. They are a law unto themselves. Any number of branches may be opened. They may make advances of any kind. The investments are not restricted and reserves may be kept in any place and in any form and manner that they see fit. Moreover, the English bank uses its reserves when necessary. The restrictions in force pertain to bank notes only and not to banking operations. In place of legislation they have a strong public opinion, traditions, and unwritten laws that have created the highest standard of excellence in banking conduct.

The general practice of these banks is to employ their surplus funds in the purchase of prime bills through the bill brokers. These bill brokers buy paper with their own capital and also borrow from the banks for such purposes and sell to the banks. The banks buy large quantities of paper direct, it being estimated that over two and a quarter billion


Brown Brothers & Co.
No 6696
New York, March 25th 1914
Messrs Brown, Shipley & Co.
London.
Pay to the order of John Doe
Two Hundred and Sixty Nine Pounds 14/7 Sterling.
Duplicate Unpaid.
(Specimen)
Per Pro Brown Brothers & Co.
Richard Roe
£269-14-7

By courtesy of Brown Bros. & Co., New York.

BANKERS' CHEQUE
(General form. For British Empires, &c.)

dollars is thus employed in the bill market. The bill brokers go all over the country offering to discount the paper of good houses, knowing they can get it discounted at the Bank of England at the bank rate, and therefore operate on a small margin of commission.

Call money does not represent stock exchange transactions as does our call market, but loans largely on account of bills maturing from day to day.

The practice of the English banks is to make advances only on security. Nor do the banks favor long time bills for home customers, preferring to take care of their own people by cash advances. They favor out-of-town customers on long bills. The great joint stock banks as a rule accept only against collateral, while other banks and bankers make accepting their exclusive business.

The manner of financing an acceptance against a lodgment of securities is simple. A customer, for instance in London, wants credit in China or India. He deposits security with the bank, and gets his letter of credit. The seller then draws on the bank and the bank accepts the draft when presented. Some banks have never borrowed from the Bank of England in any form, and some do not rediscount in the open market, seeing every transaction through to the end.

Commercial Paper in Canada

Chapter X

NOWHERE in the world, not even in France, does the banking system respond more perfectly to the needs of the people than in Canada. In the granting of credit as well as in note issues, the Canadian system serves every legitimate demand, expands and contracts as the needs require, and fully protects the banks while adequately serving the commercial and industrial interests of the country.

The banks have perfect control of the credit situation by reason of the fact that there are but twenty-four chartered banks in the Dominion, with branches, covering the entire country. The banking and credit system is therefore under the surveillance of a few large and powerful and well managed institutions, headed by trained bankers. Through the branch system they are able to feel the pulse of every part of the country, and to get accurate and first-hand information regarding any borrower. The credit facilities of the country like the bank note issues, follow where the need exists, and the situation is always under control. It is the case of a few men working together against many individuals working alone.

By virtue of the size of these banks, a line of credit may be extended to one borrower by one bank, in such an amount at times that would seem unsafe; but the secret lies in the fact that a firm cannot borrow indiscriminately in the market; it must deal with one bank or at most two, and by reason of the close intimacy established, the banker knows fully the risk, and can safely make loans that, as one banker puts it, "would make the hair of a banker across the border stand on end."

Commercial paper does not enter the Canadian system as a foundation of note issues, the Dominion notes being based on gold and securities, and the bank notes on the general assets of the banks, against which they are a first lien.

The Bankers' Lien

A peculiar security enters bank credit in Canada, whereby the lending bank becomes in a sense a silent partner of the concern. It possesses a lien on not only the goods pledged but upon all substitutes therefor. A bank may lend upon raw material and have its lien follow through all the processes of manufacture, and have the same rights as it would acquire under a warehouse receipt.

By the operation of law and upon signing a note with certain provisions a bank may lend money to a firm and become practically owner of all the goods in the concern. The borrower has the right to buy and sell, but the lien exists. In the event that it becomes necessary, the bank may take immediate possession of the stock. In fact the bank's lien is superior to that of the vendor, if the goods are pledged as security or the loan is upon warehouse receipt, unless the claim is known to the bank when the risk is assumed.

By the operation of this law, a large part of the commercial paper is secured by what is practically title to the goods in warehouses, factories and other places. Merchandise is therefore the actual collateral to the loans,

and with the general credit of the borrower forms an ideal basis of values. Thus in moving the grain crops the banks are perfectly secured. The Canadian law assumes that if the bank finances the business it should have a claim on the assets as they come into and go out of the business. By failing the goods *ipso facto* become the property of the bank. The bankers therefore not only can, but do keep close touch with the borrowers' interests. If he attempts to borrow at another bank his banker knows it, and cuts off his credit. Just the amount of paper outstanding at any time can be accurately known and manipulation of credit is quite impossible.

Complete statements are required at the beginning of each year, and a line of credit is granted, based thereon. If he needs more credit he may have it upon proving the need and showing the cause. But he must not attempt to borrow in the market and at his own bank at the same time. His bank will take care of him if he is worthy, and to deal otherwise is to be placed upon the "black list."

Canadian Commercial Paper

There is no considerable amount of paper in the Canadian market. The bill broker has no field. Merchants and manufacturers do not draw upon their customers. Credit takes the form of book accounts or promissory notes.

These notes are discounted by the banks. Book accounts are not pledged except under extraordinary conditions. The borrowing of a large firm takes two forms: (a) on single name firm paper deposited with the bank; and this is limited. Then on (b) its receivables or trade paper discounted. The bank is able therefore to keep check upon both the discounting firm and the makers.

In some lines drafts are drawn by the seller upon the buyer, running from 30 to 120 days. These are discounted and collected by the bank. The drafts are forwarded through a branch for collection, and after acceptance are held until maturity. This is two name paper.

Farmers' Paper

Inasmuch as farming is one of the leading industries of the Dominion, farmers' loans are an important element in the credit scheme. Mortgages are not taken by the chartered banks, but loans are made on the character of the borrower. Sometimes a neighbor will endorse, but farmers' paper constitutes an important part of the assets of some banks and is highly regarded. Checking accounts are freely used and by reason of the numerous branches are available to all.

The heaviest strain upon the Canadian banks comes in the fall when the crops are to be moved. Each buyer of grain or cattle arranges with his bank at the opening of the season as to the amount of credit he may use, and draws on the bank as purchases are made, and warehouse receipts are forwarded as collateral security.

Call Loans

Next to current loans in Canada, the most important item among the assets of the Canadian banks is call loans, particularly in the New York call market. These loans are considered as part of their reserve, the leading Canadian banks maintaining branches in New York for representation purposes. The loans on call or short time loans outside of Canada on September 30, 1914 was $89,500,000.

Rediscounts are a negligible quantity, the loans to other banks including bills discounted on the above date being merely nominal, $128,000, while no loans from other banks were reported. Acceptances under letters of credit amounted to $13,719,000.

Commercial Paper in France

Chapter XI

THE wonderful development and widespread use of bills of exchange in France is due in a large measure to the liberal policy pursued by the Bank of France in relation to the discount of such paper. Together with gold and silver, Commercial Paper forms the basis of the note issue, so that commercial paper of a certain quality is interchangeable with bank notes.

The French system is over a century old, the duty of building up and protecting the gold reserve being the particular function of the Bank of France; and during its long career it has never ceased to control French credit with rare foresight and steadiness, and to maintain adequate metallic holdings at all times.

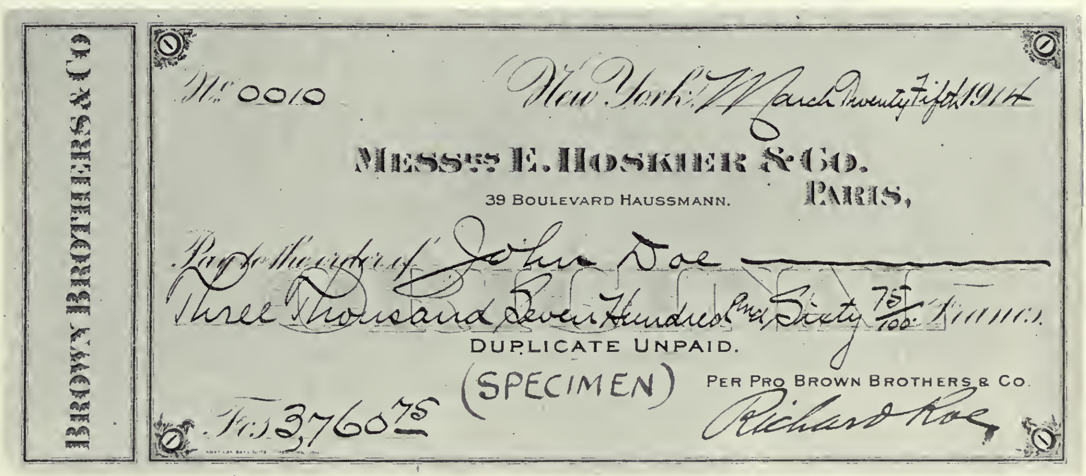
The Bank of France is a privately owned corporation, the capital of $36,500,000 all being held by the public, the average number

of shares being but 5½, and one-third the number of shares is held by persons holding one share.

It is the fiscal agent of the Government, but there is no governmental inspection, the Minister of Finance simply having the right to ask for information whenever he so elects. No part of the profits goes to the State, but a yearly tax is paid, based on the level of the discount rate and the circulation. The minimum tax is $400,000, and in 1912 it amounted to $1,750,000.

The Bank opens accounts with any one known to it, with a minimum of five hundred francs. After the account is opened the depositor may deposit as low as five francs. The Bank collects bills of exchange, receives value of more than four thousand million dollars. In the Paris offices a little more than one-half of all the paper discounted was for sums averaging less than $20, and the average time to run of all the paper discounted in 1913 was thirty days. The minimum amount of a bill accepted for discount at the Bank of France must be one dollar. Bills, commercial and agricultural warrants of fixed maturity, which have not over three months to run and bearing three signatures, two of which are of parties domiciled in France and known to be solvent, are freely accepted. It discounts bills payable in any place where it has a branch, or where it undertakes to collect bills.

Bills with two signatures are acceptable,


Brown Brothers & Co
No 0010 New York, March Twenty Fifth 1914
Messrs E. Hoskier & Co.
39 Boulevard Haussmann. Paris,
Pay to the order of John Doe
Three Thousand Seven Hundred and Sixty 75/100 Francs.
Duplicate Unpaid.
(SPECIMEN)
Per Pro Brown Brothers & Co.
Richard Roe
Frs 3760 75/100

By courtesy of Brown Bros. & Co., New York.

BANKERS' CHEQUE
(French form. Note, cheque must be dated in words.)

deposits of securities, jewels, loans on collateral, issues letters of credit, transfers money, purchases and sells securities for its customers, pays the interest on the government debt, receives subscriptions to government security offerings, buys and sells bullion, discounts bills and issues notes.

Discounts

With its 583 branches open to all, it covers all France, and does the same general line of business at the branches as at the head office. The most helpful feature of its operations lies in the fact that it discounts for any one who has obtained the right by opening account with it. During 1913 the Bank of France handled more than thirty million bills, drafts, warrants, and other pieces of commercial paper, representing an aggregate face

if in lieu of the third signature, securities of the class admitted for loans are deposited. Warehouse receipts are also received as collateral.

By reason of its large gold reserve, its liberal discount policy, its branches, and its right to pay in either gold or silver, and the universal use of its facilities on the part of the public, the Bank of France has become the ideal central institution, and one of the greatest banks in the world.

It was once a bank of banks; but since it has spread its activities throughout the country and lowered the minimum amount admitted for discount to five francs, and received deposits from all who would use its good offices, it has dealt more largely with individuals than with banks. In each of the branches of the Bank of France, there is a

discount committee conversant with the standing of borrowers, and on their advice bills are admitted to discount. Once the credit standing of the borrower is determined, he is entitled to discount without a new investigation.

France is a land of the middle classes. Out of 38,000,000 taxable inhabitants, not more than from 500,000 to 800,000 enjoy an income of more than $1,000 a year. Stability, security, and cheap money is what a republic of small capitalists require, and under the broad and liberal policy of the Bank of France, the people get all three. France is less affected by panics than any other country. Everybody saves, and everybody uses the bank.

It has been estimated that the investments of France outside the country are over 30,000,000,000 francs, making France creditor to an annual income of over a billion francs a year.

The Bank of France is constantly extending its department for the purchase and sale of securities in order to safeguard the public from excess of speculation. All banks endeavor to have securities for sale that their customers will want. A forty or fifty million franc issue will sometimes be taken in a few days.

Stability of the French Discount Market

The wonderful stability of the French discount market may be appreciated by the fact that from 1870 to 1907, a period of thirty-seven years, the rate changed but 41 times against 273 times in the Bank of England. From 1890 to 1908 it changed only 17 times against 114 times for the Bank of England. And for the fifteen years between 1898 and 1912 the average rate was 3.8, against 4.50 in Germany. The highest rate in the period was 4.50 per cent. in 1899, and since 1900 it has never exceeded 4 per cent. until the outbreak of hostilities in Europe last year, when the rate was 6 per cent. for discounts and 7 per cent. for loans. But by October 24 the rate was 5 per cent.

Commercial Paper in Relation to Note Issue

The Bank of France regulates the currency for the whole country and any bank needing cash may present its paper and receive bills in return. The need for cash by the banking institutions is met first by drawing down their reserves and then by rediscounting the paper at the Bank. To protect the gold supply the Bank has the right to pay in either gold or silver and by paying out the latter and holding the former, gold is really placed at a premium, which brings the metal from abroad.

There is nothing in the law requiring it to hold a certain proportion of metal against its notes, the requirement being that it shall so apportion the coin to notes that the Bank can at no time be exposed to danger of delaying payment of its obligations; but as a matter of policy it maintains a large gold reserve, at times running as high as 73 per cent. It can issue notes only against cash or commercial paper, and every note is therefore based upon either the metal or short time commercial paper, or both.

The note issue is influenced largely by the discount operations. The amount of bills presented for discount depends upon business requirements, and the note issues expand and contract with the demands of the commercial interests. The bills presented, therefore, regulate, the amount of outstanding notes and circulation and discounts closely follow each other in volume.

On account of this feature, the liquid assets of the banks of France consist of cash and bills discounted, the latter being quickly converted into cash by presenting to the Bank of France.

Wherever therefore, a demand for money arises, the bank will meet it by discounting the paper offered from that section, giving in return the kind of money asked for.

In transferring funds, the bank utilizes its branch system. If a payment is to be made in one section of the country by a bank in another, bills may be presented to the Central Bank for rediscount, with instructions to make the payment at the place designated, which in a measure answers the same purpose as the Giro system in Germany.

The rate for loans as distinguished from discounts is generally half of one per cent. above the discount rate; here as in Germany there being a distinction in favor of commercial paper.

Other Banks in France

The great financial institutions of France are eight in number, the four leading being, the Credit Lyonnais, the Comptoir National D'Escompte de Paris, the Société Générale and the Crédit Industriel et Commercial which have played an important part in distributing credit. Through their numerous agencies, their attractive conduct of business, their courtesy and attention, they have gradually taught the people new habits of thrift, through

the medium of investment and confidence in investment securities, so that he who yesterday hoarded in a stocking, now buys a bond or deposits in a bank.

These banks buy all the paper they can get, turning to bonds only when paper is scarce. The joint stock banks lend on all classes of security, but the Bank of France lends only on French Government bonds, bonds of French Railways, and certain securities issued by departments, communes and municipalities. There is nothing in the law to restrict their operations. No legal reserve is required, and the aim of the French banks is always to keep a large amount of bills in their portfolios that the Bank of France will rediscount, which to all intents and purposes act as cash, and gives the banks at the same time the benefit of the interest earned. About 70 per cent. of the paper discounted by the Bank of France bears bank endorsements. It never purchases paper in the market.

When commercial paper can be immediately discounted at the Bank of France up to any amount, it is needless to say that the banks do not hoard cash. They lend freely. The composition of the bank's portfolio is a better test of its strength than the amount of its cash holdings.

The government does not examine the French banks or control their operations in any way.

The private banks lend largely on two-name paper, and by adding their own indorsement make it three-name paper eligible for rediscount at the central bank. The Bank of France advances on two-name paper with collateral, and the signatures need not be of banks, for the Bank encourages direct discount operations. The private banks also discount each other's acceptances. They pay interest on practically all deposits, but at a nominal rate. The commission for accepting is a quarter of one per cent. for three months; sometimes as low as three-sixteenths. There is no competition between the bank of France and other banks, for they do not do the same kind of business.

The banks use large sums on the Paris Bourse, in operations called "reports" which are purchases of securities for cash and a sale on account, simultaneously through a broker. The difference between the cost and the selling price for future delivery covers the interest for carrying and the profit to the bank. Securities are also purchased on the curb.

Checks are not in use to any great extent in France, bank notes and coin being used quite entirely.

Inasmuch as the Bank of France discounts for any one, to any amount, at any time, paper having three names, and running not more than 90 days it has become the bulwark of French credit operations.

Most of the paper, however, comes to it through other banks. The bank check is supplanted by the commercial instrument, with which the tradesman pays his bill. The bank intervenes and furnishes the third indorsement, thereby making it eligible for rediscount at the Bank of France.

Commercial Paper in Germany

Chapter XII

AT THE head of the German banking system, and in control of the German money market stands the great Reichsbank, a semi-public institution, privately owned but publicly managed. It is not only the bank of banks, but a bank for the industrial and commercial enterprises of the country. It is supervised by a board constituted of high state officials, and is presided over by the Imperial Chancellor, who is its nominal head. Its capital of $45,000,000 is all publicly subscribed.

The chief business of the Reichsbank is the discounting of bills, which business is increasing every year. It is the general policy to discount only such bills as are in fact genuine mercantile bills, and to exclude credit and finance bills that do not represent a trade transaction. There is soundness in this practice; for a bill based upon a real money claim is in a measure security in itself. It is secured first by the business capital already employed in the concern and when discounted it discharges the economic function of liquidating that portion of the producer's capital contained in the goods. The bill releases the fixed capital in the goods which becomes available for another operation.

The chief merit of the Reichsbank as a help to industry lies in the fact that it extends credit liberally at all times, makes no distinction and serves all alike. The fact that it loses money by thus extending its facilities makes no difference; it is there to serve the

people. It has discounted at 3 per cent. when it had to pay a tax of 5 per cent. on the notes it issued to make the discount possible. Its interest to the public is considered as paramount to that of making money.

The Reichsbank is authorized to discount, buy and sell bonds of the Empire, of any German state or municipality, maturing at their face value within three months at the longest. It is also empowered to discount, buy and sell bills of exchange running for not more than three months, and bearing as a rule three, but in no case less than two names of well-known solvency. Bills are not renewed except in the case of farmers. It holds the balances of other banks which regard these deposits as cash.

It handles the Giro system of payment, by which transfers of money are made between various places and persons in the Empire, a brief description of which is found below.

It is the fiscal agent of the government and receives and disburses the public funds. It has 487 branches.

It deals with any reputable merchant who will furnish the information asked for, and receives deposits as low as one mark. It pays no interest on balances and its deposits are subject to check. It discounts as low as ten marks, and is exceedingly liberal in its lending methods. The strength of the whole German system lies in the fact that the Reichsbank is a bank of the people as well as a bank of banks. It numbers its clients by the hundred thousand, and in 1912 discounted bills to the amount of over $500,000,000 averaging only 37 days in duration.

The Bank always has a large amount of bills payable in foreign countries in gold, and in times of need, these are allowed to mature thus bringing in the metal. At such times it makes advances without interest while the gold is in transit, thus materially accelerating exchanges.

When the rates of exchange are favorable, the Reichsbank increases its holdings of foreign bills, and when funds are needed, or exchange unfavorable, the bills are sold or allowed to mature. It thus uses its foreign portfolio to regulate exchange rates and to bring in gold when gold is needed.

A feature of both the German and French money markets is the presence of a vast amount of mortgage bonds, issued by the mortgage banks of these countries. These bonds are held largely by private investors, are traded in on the stock exchanges, accepted as collateral by other banks and form an important part of the market operations. Mortgages held by institutions in Germany are estimated at $6,000,000,000, besides a large amount held by individuals.

Commercial Paper the Basis of Note Issue

The chief distinction of the Reichsbank, so far as bills of exchange are concerned, lies in the fact that in Germany as in France, such instruments form, with gold, the basis of the note issue; Germany being extremely favorable to commercial paper as such a foundation. And being based on commercial paper, the notes expand and contract with the commercial needs.

The note issues of the Reichsbank must not be greater than three times the amount of gold and silver on hand. The excess must be covered by bills running not over three months, and having three, but in exceptional cases two names.

There is no absolute maximum issue, but there is a tax when the issue is in excess of the stipulated bounds. And as above stated, such tax is often borne by the Reichsbank, rather than place the burden upon the public. It maintains a strong reserve in metal against notes, running usually above fifty, and has been as high as 85 per cent. The cash reserves to notes and deposits run from 30 up to 67 per cent. In 1913 the ratio of coin to notes was 68.98 and coin to notes and other obligations, 51.43 per cent.

Lombards

The Reichsbank loans on collateral security, such loans being termed "Lombards." The following is accepted as security: Precious metals, merchandise within the country, municipal and corporate securities, bills receivable of a character satisfactory for rediscount; bonds of mortgage companies. The rate on Lombard loans is usually about one per cent. higher than on discounts and such loans are not permissible as cover for note issue. These loans are as a rule not less than 500 marks, and the term not over three months. The loan may be recalled without notice.

Merchandise Loans

The Reichsbank is also authorized to loan on warehouse receipts. The storehouse and the date of appraisement are mentioned in the receipt and possession of the goods is vested in the bank. The storehouse may not be changed without consent of the Reichsbank,

and ownership by the bank follows the goods. Title to the goods is in the bank, and not merely the control of the title as obtains in this country. Goods in all cases must be insured. The Reichsbank owns its own storehouses, but it does not become responsible for damages to the goods while therein. Next to cash and the balance at the Reichsbank, bills and Lombard loans are considered the most liquid holdings of the German banks.

The Bank Acceptance in Germany

In Germany the direct trade bill has been displaced by the bank acceptance, due to the custom of merchants drawing on their bankers instead of the buyer, and using the banker's acceptance in paying their creditors. Most of the German bills are accepted on their credit merit and not against collateral as obtains in England. It is exceptional to have collateral.

In selling a bill of goods, the merchant will arrange with his banker to draw on the latter for the amount, thus anticipating payment of goods. When so accepted, the bill is sold to other banks, or in the open market. When thus indorsed, it becomes "prime" paper and eligible to rediscount at the Reichsbank.

Domestic exchanges in Germany of all classes are to a large extent adjusted by means of these bank acceptances. At the close of 1907, seventy-eight per cent. of the bills held by all banks were acceptances, and it is safe to assume that at present fully 80 per cent. of the bills held by the banks are acceptances. In 1907 the Deutsche Bank had no promissory notes.

The amount of acceptances out is not reported in the weekly statements of the banks as a liability, these items being reported quarterly, and always yearly. But if the acceptances are too large for the capital, according to the notions of the Reichsbank, the credit of the over-expanded bank is withdrawn, or curtailed. The Reichsbank is the great scrutinizer and regulator of the acceptance business.

The following transaction is typical of the German method of financing imports by means of the bank acceptance. A Bremen buyer having arranged the terms of a transaction, say with a cotton merchant in the South goes to his bank and gets the machinery ready for the operation.

A bill credit account is opened for the Bremen firm by its bank, and the firm instructs its representative in the United States to allow the sellers of the cotton or their bankers to draw to the amount of the purchase price on the Bremen firm's bank in Germany. The bill, with the bill of lading attached passes from hand to hand in this country and is finally sent to the bank in Germany for acceptance.

At the time the bank assumes its liability by the acceptance, it has a guaranty in the bills of lading, that the goods have gone forward and it therefore controls the title to the same. Moreover, it has evidence that a trade transaction has taken place. In case the cotton has been sold before arrival, it will of course go forward; but if not, the cotton will go into warehouse and the bill of lading will be exchanged for a warehouse receipt. In case the goods have been sold, the goods are delivered in trust to the importer to be forwarded, and "blank credit" is granted him until the remittance in the form of an accepted bill has been returned by him. The returned bill of the spinner is discounted at the bank granting the acceptance credit, and the amount credited to the importer under date of its maturity; so that the bank is covered in due time before the bill it has accepted becomes payable.

The importation of wool from Australia and the Argentine, corn and copper from America, rice from Asia, and ore from Sweden and Spain is conducted in the same manner. The risk is in forged documents, and bankruptcy on the part of the spinner and the importer while the goods are in trust, against which precautionary measures are taken.

While the German acceptance has gained considerable popularity in international markets, in certain countries of South America and in Australia and Asia, bills must even yet be in sterling, thus favoring London as the financial clearing house.

In financing exports, the bank also plays an important role, in such cases really making an advance on the goods, as soon as they are despatched.

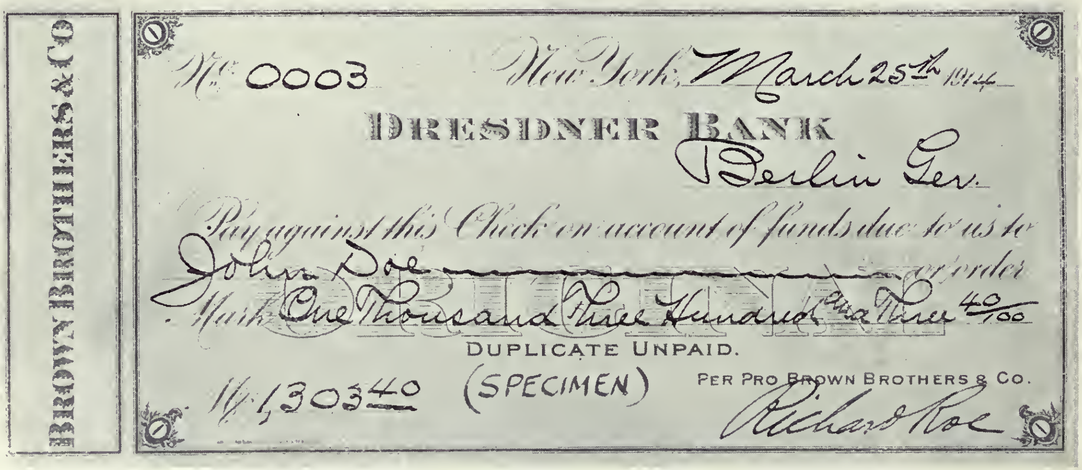
A German merchant having sold a bill of goods to, say an Argentine merchant on six months' time, wants the immediate cash. He does not draw on the Argentine merchant, for this is not the terms of the sale, and the draft would not be accepted and would be of no use. He therefore solicits a loan from his banker; that is he arranges that the banker shall accept a draft drawn on the strength of the sale, which, after acceptance becomes a "Banker's acceptance" and therefore salable in the open market. The time is usually three months, and the rate is usually ¼ of 1 per cent. for three months.

Other Banking Operations in Germany

The vanguard of the German banking system consists of five great Berlin institutions, which together with about forty allied banks in which they hold stock and often controlling interest form five groups. Together with the Reichsbank, they form the commercial banking system of Germany, while the great mortgage banks, the Landschaften, and co-operative credit societies form the land and credit banks. Of the total funds of over 400 banks, nearly fifty per cent. is in the hands of the eight Berlin Banks. And with their affiliations and control more or less complete, they dominate the banking interest of the Empire.

There are no brokerage houses in Germany such as we know them here, and the banks do a stock exchange business in connection with their regular banking operations. All banks are members of the stock exchange and have a number of men on the floor who buy and sell for customers.

All these banks are closely affiliated with the Reichsbank in that the latter carries the reserves of the other banks, the banks carrying but a small amount of coin in their vaults, treating the deposit in the Reichsbank as a cash item. The reserves of these banks are not treated as a dormant balance, but a sum with which to do business—the rightful function of a reserve. They pay more attention to the amount of prime paper on hand than the cash. They carry only enough money to do business with. The quick assets consists of cash on hand and on deposit, prime bills, short loans and choice securities, these items running as high as 55 per cent. of the liabilities. In addition, from 10 to 15 per cent. of the deposit liabilities is carried in short current accounts. It is the custom of these banks to send their maturing bills to the Reichsbank about ten days before maturity for collection. The funds are thus kept in a liquid state and constantly turning over. Thus the Deutsche Bank carries a large amount of commercial bills, of the highest class, about $2,000,000 maturing daily, not over three months to run, and an average maturity of under 75 days, and considers these part of the reserve.



By courtesy of Brown Bros. & Co., New York.

BANKERS' CHEQUE

(German form. Note words "on account of funds due to us.")

These banks have in a very large measure been responsible for the development of German industry, which development dates back to 1871. All the great banks have been organized since that year, and through their activities trade has been fostered, and world wide commercial relations established. They actively participate in industrial development, forming syndicates, and financing various development enterprises. These banks work on the theory that to develop trade is just as important as to develop agriculture. At the end of 1912 the bills discounted by these banks were three billion marks, one and one-half billions of which were absorbed by the six great Berlin institutions. The aggregate of the Reichsbank's discounts was two billion marks. About 60 per cent. of the discounts are for banks.

The Reichsbank is more restricted by law than the other German banks, and at the

latter, the rate of discount may be less than at the Reichsbank. The private banker knows his clients, and may be willing to accept bills at a less rate than the official rate (which has been as high as 7½ per cent.), and he might take bills the Reichsbank would not accept. It is only prime bills—those in the sum of 5,000 marks or more and maturing in from 56 to 90 days that command the private rate.

The Reichsbank does not purchase securities but carries government and municipal bonds so as to have a supply for selling purposes. It does not buy railroad issues.

Checks in Germany

The operation of the Giro system of payments has resulted in the restriction of the use of checks in Germany, and they have not had the development as in England and America. The people are not accustomed to having checking accounts, but they are gradually adopting the check system of payments, the banks of the country aiding in this propaganda. The Reichsbank has not, however, led in this movement, it having encouraged the use of bills of exchange more than the use of the check. The latter would seem the better of the two, for as one German writer well puts it: "A man who issues a bill of exchange needs money; one who issues a check has money."

The English system of "crossing checks" is in vogue, and is widely employed, the effect being to transfer the amount to the payee's credit and prevent cashing. Certified checks are not contemplated in the check laws. The rapid growth of the great banks, which have covered the country with branches, has done much to increase the use of the check.

Germany's Unique "Giro System" of Money Transfers

The most effective use of bank credit obtains in Germany under the Giro system of transfer, by which bank funds are transferred from one person to another, and from place to place with little ceremony and at trifling cost. It is one of the distinctive but not exclusive functions of the Reichsbank, and has developed to enormous proportions, the Giro transactions in 1913, aggregating 189,601,916,000 marks or nearly 48 billion dollars.

The Giro system is possible because of the large number of branches of the Reichsbank, which makes it possible to transfer funds to any part of the country, and by reason of the large number of Giro depositors (26,148, January 1, 1914) a large clientele is served.

The Giro account is available to anyone who will keep the balance stipulated, and is availed of by all classes of merchants, institutions, corporations, banks, and public authorities, but the banks participate in these operations to the extent of over 50 per cent. of the total. No interest is paid on Giro balances, and no charge is made for the service except as noted below. To facilitate transfers, a list of Giro depositors is published, with the Giro number, similar to the list used in the Numerical Transit System in this country. Merchants and manufacturers are advised to state that they are members of the Giro system on their stationery, giving their Giro number.

Upon opening account, the depositor receives a set of blanks together with an account book in which is kept a record of the transactions. No other certificates are given. The blanks are to be carefully safeguarded so that only authorized Giro depositors shall come into possession of the blanks; but the burden is upon the depositor: Careless filling in of checks works to charge the depositor with the risk of forgery.

Cash, bills of exchange, proceeds of collateral loans and checks are credited to the Giro account at once. Deposits may be withdrawn on demand. Cash withdrawals are required to be on white slips, made out to a designated payee, "or bearer" and the Reichsbank pays to bearer without verifying his right to it, even though the check is drawn to order. Checks intended for settlement with the Reichsbank, or with another account holder must be marked "nur zur verrechnung" (for accounting only) and in this case the check will not be paid in cash.

For transfers to the same or another banking city, a red check is used. They must be made out to the order of a particular person and are not transferable.

The depositor simply hands in a red slip, the result of which is to transfer from his account to another account, it may be in a distant city, the designated amount; and this without cost or delay.

As above stated, no charge is made for this service, the compensation to the Reichsbank coming from the use of the free money; but red checks presented between 4 and 4:30 P. M. are charged a fee of 50 pfennings; and if delivered between 4.30 and 5 o'clock, are charged one mark. For withdrawing an order a fee of one mark is charged. Immediate transfers are made upon paying a fee of one mark and postage.

While depositors are encouraged to use the Giro system to its full extent, they are forbidden to extend its use to non-members. Giro transactions are also performed by the other banks, to such an extent that they ultimately threaten to deprive the Reichsbank of its place as the leader in this sphere of credit operations.

The resulting benefits to Germany's commerce and trade can be appreciated by contemplating the advantages accruing to the merchants and manufacturers of our country if money could be transferred anywhere without cost, except the loss of interest on a bank balance. But to become operative there would have to be a branch bank system or bank affiliations working together for mutual service; a condition that cannot exist in a series of several thousand distinct units, each looking for profit to itself.

Commercial Paper in Japan

Chapter XIII

The methods observed in discounting commercial paper in Japan are similar to those in other countries. The business transaction being concluded, the purchaser of a bill of goods gives his note to the seller, payable at his (the buyer's) bank or at his own place of business. The payee indorses the same and discounts it at his bank; this bank in turn indorses it and rediscounts it with the Bank of Japan. The bill of exchange when drawn against a sale of merchandise operates the same, the drawee accepting it payable at his bank. After acceptance it is returned to the drawer who discounts it with his bank, which in turn may indorse and rediscount it at the Bank of Japan. At maturity bills of exchange and promissory notes are presented for payment through the clearing house. Small banks not members of the clearing house make clearings through members.

Where instruments are dishonored, they are handed to the notary and protested within two days. Paper to be eligible for rediscount at the Bank of Japan must have the indorsement of two parties, one of which must be the bank presenting. In case there is but one name, collateral approved by the Bank of Japan must accompany. In order to be discounted with the Bank of Japan, paper must be presented the day previous for examination before 10:30 A.M. Bills secured by collateral are not subject to this rule.

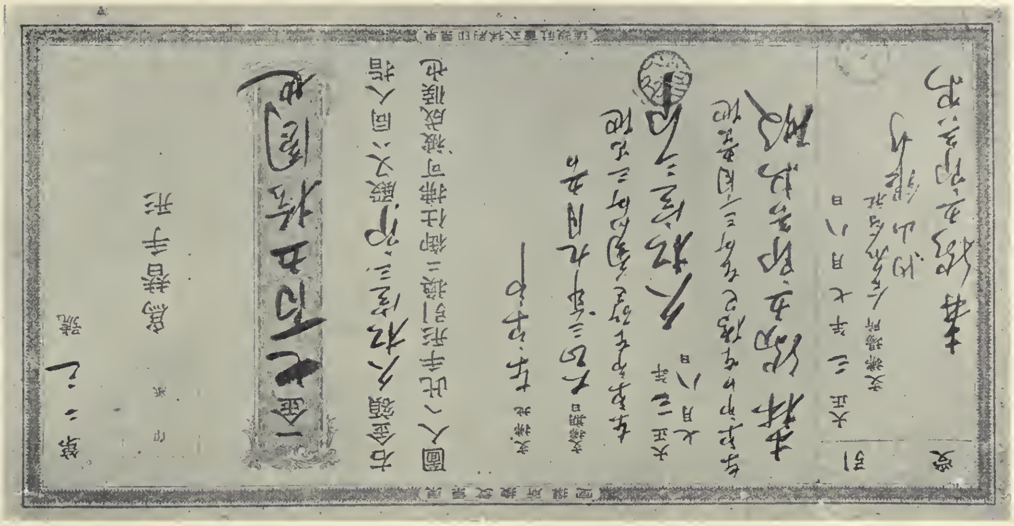
Goods for Export

A transaction between Japan and America would be handled as follows: The exporter in Japan presents to his local bank a draft on the buyer in America, with shipping documents attached. The local bank will purchase the instrument and forward to the United States for collection.

We are indebted to the New York Agency of the Bank of Japan for the two accompanying facsimiles, the promissory note and domestic bill of exchange, which are the two principal credit instruments used in commercial transactions. Both of these instruments are eligible for rediscount by the Bank of Japan.

The Bank of Japan

The banking system of Japan centers in the Bank of Japan, which is organized and modelled after the Central Bank of Belgium, the purpose being to facilitate the handling and disposition of money belonging to the treasury, to supervise the national bond issue and to adjust the monetary conditions at home and abroad. The business transacted by the Bank of Japan consists of discounting and purchasing government bills, bills of exchange and commercial bills, buying and selling bullion, making loans on security of metallic deposits, collecting bills for its regular customers, receiving deposits for account and on safe deposit, and making advances on various securities. The Bank of Japan works in conjunction with the ordinary banks, savings banks and Yokohoma Specie Bank in exchange transactions. The latter bank was organized to facilitate both exports and imports. The Bank of Japan makes advances and rediscounts bills for the Yokohoma Specie Bank. The Bank of Japan never deals directly in foreign exchange or sends money abroad. Government transactions abroad are therefore handled by the Yokohoma Specie Bank for the Bank of Japan. The Bank of Japan must keep gold or silver coins or bullion as a conversion reserve equal to the convertible bank notes issued. The amount of silver coins and bullion must not exceed one quarter of the whole amount of the conversion reserve. Outside of the above quotations, it may issue convertible bank notes on the security of government bonds or other bonds and commercial bills of a reliable nature.



Acceptance.

Acceptor.

Place of Bank where payable.

Date.

Drawee.

Address.

Maker.

Date due.

Town where payable.

This draft will be paid to (_______) or his order.

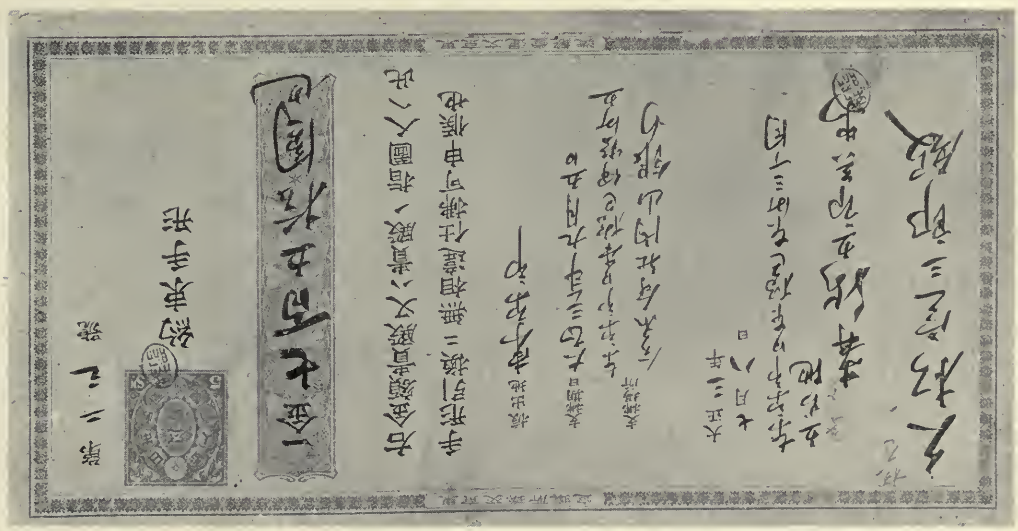
Amount.

Title Draft or Bill of Exchange.

Number.

BILL OF EXCHANGE

We reproduce these instruments by courtesy of the Bank of Japan.



Payee.

Maker.

Address.

Date.

Place where note is payable.

Date of maturity.

Place where note was issued.

This amount will be paid to you or your order in exchange for the note.

Amount.

Title—promissory note.

Number.

PROMISSORY NOTE

The Origin of Commercial Paper and Bills of Exchange

Chapter XIV

THE mechanism of credit instruments is not a modern creation. The making of loans on promissory notes is as old as authenticated history.

Instruments of credit were in use while yet coinage was unknown. Transfer of credit instruments was made in Assyria, Phoenicia, and Egypt long before the system attained full development in Greece and Rome. Manu, the Sanskirt law giver, speaks of judicial proceedings in which credit instruments were a factor.

Such instruments were in use in Babylonian times, in business dealings. Promissory notes and contracts were inscribed on tablets of clay, evidently with a die, for each character is plain and distinct. The tablet was then baked or sun dried to prevent the obliteration of the inscription. History dates some of these tablets 2,000 to 3,000 B. C.

From the frequency with which these tablets were used, their durability, and the care taken to preserve them in the temples, which are known to have served as banks, and particularly from the inscriptions, there can be no doubt that these tablets correspond to the modern promissory note, and were common instruments in commercial transactions. When the debt was paid the tablet was broken.

A large collection of these tablets, in perfect state of preservation, recording various business transactions during the Babylonian period are now in the Metropolitan Museum of Art in New York.

The Origin of Bills of Exchange Uncertain

The numerous commentators on the law of bills and notes have searched ancient history with great care to discover the origin of the bill of exchange. And yet it cannot be stated with any degree of certainty by whom they were invented or first used. It is said by Pothier that there is no vestige of them among the Romans, or of any contract of exchange. It appears, however, that Cicero directed one of his friends, at Rome, who had money due him at Athens, to cause it to be paid to his son at that place, and the friend accordingly wrote to one of his debtors at Athens and ordered him to pay a sum of money to Cicero's son; yet it is observed that this transaction amounted to nothing more than a mere order and was not that species of negotiation which is conducted through the medium of a bill of exchange.

Origin Credited to the Jews

Other historians credit the origin of the bill of exchange to the Jews, who used this method of transfer of property upon their banishment from France in the reign of Philip Augustus and Philip de Long, as a means of evading the confiscation of their property, by its prompt and secret transfer.

They were shut out from the trades, and the acquisition of real property was denied them in nearly every European country. Exclusion from realty owners hipwas not a hardship, if property was to be the subject of constant confiscation, since money or its representative could easily be transported. The transfer of money being expensive, its transfer by means of credit instruments was a natural consequence.

Blackstone, the great commentator says: "This method is said to have been brought into general use by the Jews and Lombards when banished for their usury and other vices, in order to more easily draw their effects out of France and England into those countries in which they had chosen to reside. But the invention was a little earlier; for the Jews were banished out of Guienne in 1287, and out of England in 1290," while the use of paper credit was introduced into the Mogul Empire in China.

Other writers assign the origin of bills of exchange to the Gibelins, on their being expelled from Italy by the faction of the Guelphs. The motives, in either instance were the same, namely, to withdraw their effects with the secrecy necessary to prevent confiscation. Therefore they gave bills on their friends for the sums agreed upon, the values being regulated by the values of the different coins exchanged. As many of the bills came back unpaid, it gave birth to the charge of re-exchange, first begun by the Lombards,

who, after different modifications, fixed it into a branch of the business. They retired on their first expulsion from Italy into Lyons in France and other kingdoms in Europe, so that it was these people who first sowed the seeds of such negotiations in the minds of the Belgick merchants, who duly cultivated and spread them all over Europe for the easier conduct of mercantile affairs.

The Argentarii of Italy were first money changers, then the receivers of deposits, then lenders at interest, and purchasers of bills of exchange. Deposits were utilized as the basis of transfers of paper credit, and loans were made by these instruments without direct withdrawal of cash from the bankers' hands. To *perscribere* was to give a check on one's account, or transfer credit from one to the other. These orders, however, lacked the character of modern checks in not being negotiable.

Interest as a legitimate charge for the use of money was denied by the church, but as early as the 13th century it was conceded that if usury was against the perfection of the Christian law, it was at least not contrary to civic interests. St. Thomas admitted that the loss resulting to the lender, who was deprived of the use of his money, gave birth to the word interest as a substitute for usury.

The charge made for the transfer of money was, therefore, to cover the interest for its use; hence many continental codes of commerce provided that bills of exchange should be payable in a different place from that drawn. The bill was converted into a direct loan in form called "dry exchange," by the borrower drawing on a fictitious person, in some foreign country at current rates, which bill was delivered to the lender.

At maturity the bill was returned protested and borrower charged with exchange and expenses, amounting to from 20 to 30 per cent., the bill never having left the country. (Conant Principles of Money and Banking, vol. II, p. 176)

The "Tally"

Up to the beginning of the nineteenth century, there was in use a peculiar form of credit instrument called the "tally," which took the place of both coin and private tokens. The "tally" was a stick of square hazelwood notched in a manner to indicate the amount due. The name of the debtor and the date were written on opposite sides of the stick, which was split down the middle in such a way that the notches were cut in half, but the name and date appeared on both halves. The split was stopped by a cross cut about an inch from the base, so that one piece was shorter than the other. The buyer kept one piece, the seller the other, and the debtor was thus protected by keeping the "stock" or stub, so that while both had a complete record of the transaction, one was protected from fraud by reason of his "stock." These tallies were transferable and negotiable just like bills of exchange.

The Great Fairs of Europe

Bills of exchange did not circulate as freely in England as on the Continent, due to the supposed non-alienability of debts in the Common Law of England. On the Continent debts were as salable as any other property, bills of exchange circulating as freely as money. At several great trading centers, Antwerp, Lyons, Brussels and many other places, there were held great fairs at certain periods. The Continental merchants instead of making their bills payable at their own houses, where cash must have been kept to meet them, made them payable only at these fairs. Their bills circulated freely until fair time when they were redeemed. The merchants met at these fairs and adjusted their mutual claims, and by this means an enormous commerce was carried on without the aid of specie. It is said by an eminent economist that over 80,000,000 transactions were settled at the great fair of Lyons without the use of a single coin. This, of course, was before the era of banking.

Great fairs were also held in England, at which mutual debts were settled by the exchange of tallies, justices being set over the fairs to settle commercial disputes and to prove the tallies according to the commercial law. The greatest of these fairs was that of St. Giles in Winchester, while the most famous in Europe were those of Champagne and Brie in France. They were also held in Greece, Rome, India, Mexico and Egypt. It was the custom everywhere in drawing up contracts to make them payable at these fairs.

Bills of Exchange in England

Bills of Exchange were in use upon the Continent before they were introduced into England, where they first came into vogue about the middle of the seventeenth century. At first the term "bill" was synonymous with "note," and it is difficult to determine from the early cases whether one or the other was in suit. Lord Holt (1704) is reported to have

said that he remembered when actions on *inland bills* first began, and declared that the effort to place bills and notes on the same footing "proceeded from the obstinacy and opinionativeness of the merchants who were endeavoring to set the law of Lombard Street above the law of Westminster Hall." The controversy terminated in the statute of Anne, 1705, which made promissory notes assignable or endorsable over in the same manner as inland bills of exchange, according to the customs of merchants. Some authorities contend that the Statute of Anne merely declared their existing status, and Professor Parsons concludes that "these notes were, at the time the statute was made, negotiable by the law merchant of England, which was and is as much a part of the law of England as the laws relating to marriage or murder."

These "customs of merchants" grew out of the usages and practices of merchants, who were numerous in the towns and cities of England during the Hanseatic league, and who engaged in foreign trade, and brought with them the usages of the Continent relating to bills, the main features being negotiability, days of grace and consideration.

The Bills of Exchange Act of 1882 in England codified the laws of the United Kingdom relating to bills of exchange, notes and checks, reference to which has already been made.

Promissory Notes in England and France

In many of the dealings merchant with merchant, a less complicated mode of payment was needed than the ordinary bill of exchange. A trader needing credit with his manufacturer or wholesaler might not have the facilities to furnish a bill on another man, but his own responsibility might be such that his simple promise to pay in writing might be accepted with equal confidence as such a bill; and the promissory note followed. The period of their introduction was about thirty years prior to the reign of Queen Anne, 1670. These notes were first considered merely written evidences of debt, it being held they were not assignable or endorsable over, within the custom of merchants, to any other person. And if indorsed over, the person to whom indorsed could not maintain an action against the drawer; and that the payee could not maintain such action. But they were at length put on the same footing as inland bills, as above stated.

As early as 1670 the law and practice as to bills of exchange was fairly well defined in France. The French law rigidly keeps in view the theory that a bill of exchange in its inception is an instrument by which a trade debt is transferred to another. In England bills have developed into a paper currency of perfect flexibility. In France a bill represents a business transaction; in England it is an instrument of credit. English law permits accommodation paper; France endeavors to stamp it out. England requires no "value received" to be stated on the bill, the law presuming consideration. In France the nature of the consideration must be stated, or the contract is void in the hands of any party with notice. An English bill may be payable to bearer; a French bill to order only.

Bills of exchange are known to have been used in this country in the early days of the Newfoundland fishing industry. Fishermen sold their catch to traders at the market price in English coin, and received credit on their books to be traded in for supplies. Balances due from the traders were paid by drafts on England or France.

Bills of Exchange in America

As early as 1727 "tobacco notes" were issued in Virginia. These were notes issued by official inspectors against tobacco in government warehouses—warehouses receipts, that passed current in the district in which they were issued.

Bills of credit in various forms were used by the colonies for numerous purposes, such as in paying the wages of soldiers, government expenses, etc., but these were intended to circulate as money itself, and were not bills of exchange or promissory notes in the sense that they represented a transaction in trade, or a debt, other than a public obligation. The numerous devices used in lieu of metallic money in the early days in this country were in form but not in substance, true commercial paper, for commercial paper arises out of business transactions and circulates as money without the intent on the part of the maker that it shall supplant metallic money.

THE AMERICAN ASSOCIATION OF PUBLIC ACCOUNTANTS

Incorporated under the Laws of New York, 1887

EXECUTIVE OFFICE, 55 LIBERTY STREET, NEW YORK

The National Organization of Public Accountants practising in the United States of America

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Colorado Society of Certified Public Accountants
Connecticut Society of Certified Public Accountants
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EXTRACT FROM CONSTITUTION, ARTICLE I.

The name of the association shall be "The American Association of Public Accountants."

Its objects shall be to unite in one organization the public accountants practising in the United States, to advance the science of accountancy, aid in securing uniformity of legislation affecting the profession and the business community, uphold the high standard of the profession, and encourage cordial intercourse among public accountants.

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If it were not for credit many people who possess capital but have no means of utilizing it themselves would find it useless and profitless.—John Stuart Mill.